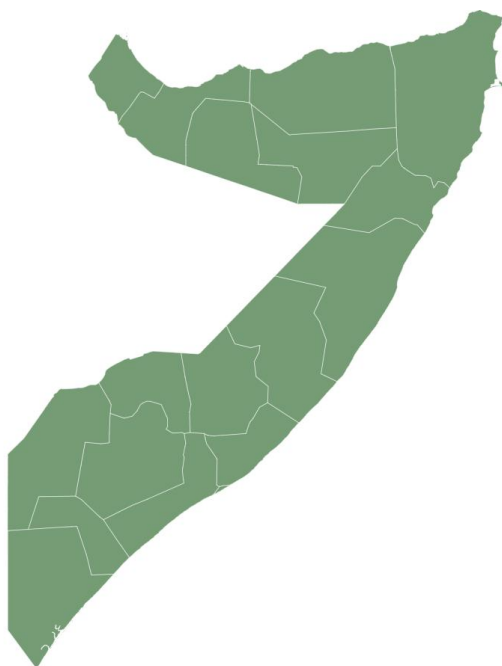


Somalia Governance and Public Finance Systems

Assessment of Domestic Resource Mobilisation, Public Finance Management, Statistical Capacity, and Anti-Corruption



Chr. Michelsen Institute & ITAD
Bergen, December 2025

Foreword

This report is developed under the “Framework Agreement for the provision of consultancy services for procurement of consultancy services related to Norad’s Governance and Public Finance Portfolio and economic governance engagement”.¹ The framework agreement between Norad and CMI includes desk-based studies covering Malawi, Mozambique, Somalia and Tanzania. The studies cover, to the extent possible given the available documentation and dialogues, the most relevant partner analyses, programs, and assistance in the following thematic areas: (1) Domestic Resource Mobilization (DRM), (2) Public Finance Management (PFM), (3) Statistical Capacity, and (4) Anti-Corruption. The purpose of these studies is to provide contextual knowledge that informs priorities relevant to Norway as well as other partners engaged in the thematics covered in the reports, as well as specifically for Norad within the portfolio of Governance and Public Finance. It establishes a foundation for tracking developments over time and identifies potential contributions from the portfolio to such developments.

CMI’s study team consisted of Senior Researcher Elling Tjønneland (project leader); Senior Researcher Ingrid Hoem Sjursen (deputy project leader); Research Professor Odd-Helge Fjeldstad (main author of the Tanzania report and co-author of the Malawi report); Senior Researcher Aslak Orre (main author of the Mozambique report and co-author of the Malawi report); and Post Doctoral Fellow Gayatri Sahgal (main author of the Somalia report and co-author of the Malawi report). Rob Lloyd (ITAD) has been responsible for the quality assurance of the reports.

The study team would like to thank the staff of Norad’s *Section for Governance and the Norwegian Embassies in Dar es Salaam, Lilongwe, Maputo, Mombasa, and Nairobi* for constructive discussions during our work and for their valuable comments on earlier drafts. The country reports do not reflect the policies or views of the Norwegian Ministry of Foreign Affairs or Norad. The opinions expressed are solely those of the authors. Responsibility for the reports’ content and any errors rests entirely with the study team.

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Acronyms

- **AML/CFT:** Anti-Money Laundering and Countering the Financing of Terrorism
- **AS:** Al Shabaab
- **ATMIS:** African Transition Mission in Somalia
- **AUSSOM:** African Union Support and Stabilisation Mission in Somalia
- **CBS:** Central Bank of Somalia
- **COMESA:** Common Market for Eastern and Southern Africa
- **CPI:** Corruption Perception Index
- **DAC:** Development Assistance Committee
- **DMU:** Debt Management Unit
- **DRM:** Domestic Resource Mobilisation
- **EAC:** East African Community
- **EU:** European Union
- **FAO:** Food and Agriculture Organisation
- **FCDO:** Foreign Commonwealth and Development Office
- **FCV:** Fragility, Conflict, and Violence
- **FGC:** Financial Governance Committee
- **FGS:** Federal Government of Somalia
- **FMIS:** Financial Management Information System
- **FMS:** Federal Member States
- **FRC:** Financial Reporting Centre
- **GDP:** Gross Domestic Product
- **GSS:** Galmudug State of Somalia
- **HIPC:** Heavily Indebted Poor Countries
- **HR:** Human Resource
- **HRM:** Human Resource Management
- **HRMIS:** Human Resource Management Information System
- **HSS:** Hirshabelle State of Somalia
- **IACC:** Independent Anti-Corruption Commission
- **ICD:** Integrity Coordination Department
- **ICT:** Information Communication Technology
- **IFF:** Illicit Financial Flows
- **IFMIS:** Integrated Financial Management and Information System
- **IGFF:** Intergovernmental Fiscal Forum
- **IGFFTC:** Intergovernmental Fiscal Forum Technical Committee
- **IMF:** International Monetary Fund
- **IRM:** Implementation Review Mechanism
- **ITAS:** Integrated Tax Administration Automation System
- **JSS:** Jubaland State of Somalia
- **LMDMIS:** Livestock Market Data and Information Management System
- **LMTO:** Large and Medium Taxpayer Office
- **MIS:** Management Information System
- **MPF:** Multi-Partner Fund

- **NACS:** National Anti-Corruption Strategy
- **NCCC:** National Climate Change Committee
- **NDP:** National Development Plan
- **NRA:** National Revenue Authority
- **NAMLC:** National Anti-Money Laundering Committee
- **OAG:** Office of the Auditor General
- **OBS:** Open Budget Survey
- **ODA:** Overseas Development Assistance
- **PEFA:** Public Expenditure and Financial Accountability
- **PFM:** Public Financial Management
- **PREMIS:** Public Resource Management in Somalia (PREMIS)
- **PSM:** Public Sector Management
- **PSS:** Puntland State of Somalia
- **RAL:** Revenue Administration Law
- **RCRF-3:** Recurrent Cost and Reform Financing Project III
- **SCF:** Somalia Country Fund
- **SERP:** Somalia Enhancing Public Resource Management Project
- **SIHBS:** Somali Integrated Household Budget Survey
- **SISECB:** Somali Integrated Statistics and Economic Capacity Building
- **SNBS:** Somali National Bureau of Statistics
- **SOMCAS:** Somali Customs Automated System
- **SRBC:** Somalia State and Resilience Building Contract
- **SWS:** South-West State of Somalia
- **TADAT:** Tax Administration Diagnostic Assessment Tool
- **TSA:** Treasury Savings Account
- **UN:** United Nations
- **UNCAC:** United Nations Convention Against Corruption
- **UNODC:** United Nations Office on Drugs and Crime
- **USAID:** US Agency for International Development
- **WB:** World Bank

Executive Summary

Somalia has made considerable progress in establishing the fundamental structures of formal state capacity. The country has achieved three stable transitions of power at the federal level and made significant progress in establishing regional administrations. While crucial agreements on the division of power and federal responsibilities, including on the sharing of resources, have yet to be codified constitutionally, various fora have been established to create space for inter-governmental deliberation and dialogue. Somalia has also made rapid strides in reducing its overall debt burden and has become more regionally integrated by successfully gaining membership to the East African Community.

Despite all such promises, the country continues to face formidable challenges. Somalia is the second most fragile state in the world. The pace of economic growth, although increasing, remains relatively low (4% in 2024) and is vulnerable to exogenous and persistent shocks, including those brought on by decades of conflict, climate-related catastrophes, and global price instabilities. Moreover, poverty levels remain high and widespread in Somalia as more than half the population lives below the poverty line (54%). The Federal Government's (FGS) authority, while expanding, is also limited and is threatened by the terror group Al-Shabaab. Politically, tensions also persist between the FGS and the Federal Member States (FMS), as well as the autonomous region of Somaliland.

Norad's governance and public finance portfolio aims to strengthen developing countries' capacity to collect, manage and allocate domestic resources to implement national development plans in support of the Sustainable Development Goals. The portfolio consists of four interconnected and mutually reinforcing outcomes at country level, including: 1) Revenues: Improved and more just domestic resource mobilisation, 2) Public Finance Management: Improved public financial management that supports equity outcomes and gender equality, 3) Statistics: Improved national statistical systems that produce and use statistics for policy, 4) Anti-corruption and Financial integrity: Improved systems to prevent and prosecute corruption and illicit financial flows. The Norad portfolio has limited engagement in Somalia with most Norwegian funding being managed by the Ministry of Foreign Affairs and the Embassy. This report assesses Somalia's progress toward these outcomes and identifies gaps to help guide Norad's future programming efforts.

Improved and more just DRM is a considerable challenge in Somalia. It has one of the lowest tax-to-GDP ratios and is heavily reliant on external financing, which accounts for more than half of the country's revenue budget. Customs taxes and non-tax revenues, rather than income and direct taxes, constitute a significant share of domestic revenues. Somalia's tax administrative capacity is also low, and the legal framework remains outdated. There is a lack of harmonisation of tax systems across the regional entities, as the Provisional Constitution does not provide for a division of resources or a system of intergovernmental transfers. Additionally, there are numerous informal tax collectors, including clan and religious institutions, as well as groups such as Al Shabaab. The existing tax system is consequently neither equitable nor just, as Somali citizens pay multiple, overlapping taxes in exchange for limited returns.

Somalia has been making efforts to improve DRM. Efforts are being made, especially to strengthen tax policy, enhance revenue collection from income taxes, excise taxes, and non-tax revenue sources, and to streamline and harmonise customs taxation. New and updated legislation has also been introduced. In 2019, the Revenue Administration Law was introduced to modernise tax administration and enhance tax collection. Furthermore, the Somali Parliament passed an Income Tax Bill in May 2025, marking progress toward establishing a modern income tax framework. These initiatives are being supported by four programmes, including the World Bank's Recurrent Cost and Reform Financing Project III (RCRF-3) and Somalia Enhancing Public Resource Management Project (SERP) programme, Foreign Commonwealth and Development Office's FCDO's Public Resource Management in Somalia (PREMIS) 2, and the IMF's Somalia Country Fund (SCF) programme.

These policy changes have considerable revenue potential; nevertheless, several concerns remain unresolved, especially regarding the implementation of higher income taxes on larger companies, harmonising tax laws across the federation, enhancing the fiscal capacity of FMSs, establishing coherent frameworks for excise policies, and streamlining the process of tax exemptions. Further, a

rules-based system of inter-governmental transfers of donor funds from FGS to FMSs remains a challenge. Taxpayers' willingness to pay taxes is also low and is unlikely to improve without improvements in the government's capacity to provide reciprocal returns.

Somalia's Public Finance Management (PFM) capacity is weak, which presents a challenge for improving PFM that supports equity and gender equality. Somalia runs a chronically high structural trade deficit, as the economy is heavily reliant on imports. Despite an upward trajectory, the public expenditure-to-GDP ratio lags behind comparator countries. The reliability, credibility and transparency of the budgetary process have been a persistent concern, with wide variances between the original budget and the actual expenditures. The foundational elements of fiscal reporting have been established but remain disjointed, precluding consolidated reporting that could enable informed decision-making. A significant share of public spending is also allocated to wages and security expenses, crowding out resources for development-related spending.

Several reforms have been introduced. With the support of donors, the Somali government has been working to enhance the credibility and reliability of its budgetary processes by introducing systems for robust revenue modelling. Attempts have also been made to improve the transparency of the budgeting processes, with reforms focused on publishing the citizens' budget, preparing a mid-year budget analysis, and enhancing the timeliness of in-year budget execution reports. There have also been improvements in financial reporting practices; FGS and FMS have been preparing and publishing quarterly budget execution reports in a timely manner on their websites. Additionally, efforts have also been made to improve gender and climate-informed budgeting.

There continue to be gaps in improving PFM capacity. While the country has achieved debt relief, its external dependence, combined with low levels of domestic revenue mobilisation, leaves Somalia at risk of debt distress. There have also been incremental improvements in development and social spending; however, most of this spending has been funded through external grants. There is also currently no specific architecture to support climate and gender-informed budgeting; this is a significant issue given the high levels of gender inequality in the country and the considerable exposure to climate-related risks. Lastly, the lack of clear fiscal federalism frameworks presents a critical gap that risks undermining efforts to support harmonised budgeting, financial reporting, and management.

Improving statistical capacity is critical but also challenging in Somalia. Given that much of the country's statistical infrastructure was destroyed during the thirty-plus years of conflict. The establishment of the Somali National Bureau of Statistics (SNBS) represents a significant step in rebuilding the country's statistical capacity. However, the effectiveness of the SNBS is undermined by weak coordination, capacity constraints, and limited credibility. There are also considerable gaps in institutional linkages and data integration mechanisms, which remain underdeveloped. Additionally, weaknesses remain in harmonising systems and strengthening inter-agency collaboration, which are crucial for enhancing data accessibility and usability.

The SNBS's strategic plan serves as a starting point, but persistent concerns remain. The plan provides a framework for introducing reforms. However, the plan could be made more robust, especially by clarifying the framework for coordinating data sharing between internal and external agencies. The success of the plan also hinges on political support, consistent implementation, and improved accountability mechanisms across all stakeholders, which have yet to be realised.

Data also remains highly politicised in Somalia. Ministries continue to favour data collected by their own departments and rely less on data from SNBS and other agencies. This makes it challenging to build coordination mechanisms and has been a significant reason why such reforms have been particularly difficult to implement. There is also the issue of data privatisation, as external partners have been unwilling to share data with SNBS and other government agencies due to limited capacity for data management and storage. These issues undermine efforts to implement key reforms, such as the new Data Protection Law, and hinder the development of national statistical capacity.

Corruption is a persistent and prevalent problem, making it challenging to prevent and prosecute corruption and illicit financial flows. Somalia has consistently ranked at the bottom of the Corruption Perception Index (CPI) and was the second most corrupt country, after South Sudan, in 2024. Somalia

also has an enduring problem of illicit financial flows (IFF), stemming from the large amount of illicit funding raised by Al Shabaab.

In addressing these challenges, several initiatives have been undertaken, including the establishment of an independent Anti-Corruption Commission (IACC) and the development of a National Anti-Corruption Strategy. (NACS). Additionally, a new legal framework has been adopted to provide a clearer and more transparent basis for public sector procurement. New legislation, such as the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act 2016, has also been introduced to reduce IFFs. Bodies such as the National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Committee and the Financial Reporting Centre (FRC) have also been established to lead the country's AML/CFT efforts.

However, implementation challenges remain. Although the Auditor General's audit and oversight capacity is being strengthened, persistent procurement irregularities and financial mismanagement indicate limited accountability and enforcement. Contracts continue to be awarded on a sole-source basis instead of through a competitive tendering process. Furthermore, the bodies overseeing illicit financial flows have struggled to enforce compliance effectively, particularly among banks, mobile money providers, and designated non-financial businesses and professions, such as real estate agents, notaries, and lawyers.

When designing future initiatives, several political economy considerations should be taken into account. The ongoing tensions between the FGS and FMS, particularly Jubaland and Puntland, risk derailing some of the progress achieved in fiscal harmonisation. Competition from informal actors and threats posed by Al-Shabaab also reduce the legitimacy and the capacity of FGS and member states to introduce and implement sustained reforms. The broader political settlement context presents further challenges for reform initiatives, especially those related to DRM, PFM, and anti-corruption programmes. There are, however, opportunities and levers of change. This includes the commitment of groups of political elites to reforms. Reformers at the federal and state levels have backed the macro-economic reforms and lent their considerable support to ensuring that Somalia meets the Heavily Indebted Poor Country (HIPC) benchmarks. The progress has been made possible with the support of international development partners, who have played a crucial role in pressuring political elites to introduce reforms. Private entrepreneurs, who had been more ambivalent until recently, have demonstrated a growing commitment to supporting reform initiatives.

In the following table, we summarise these findings in a tabular format and grade Somalia's performance across the four thematic areas - Domestic Resource Mobilisation (DRM), Public Financial Management (PFM), Statistical Capacity, and Anti-Corruption - using a four-point A–D. The scale reflects both institutional strength and reform momentum: A = Strong, B = Moderately Strong, C = Moderately Adequate, D = Weak (Further details of the scoring methodology can be found in Annexe 1).

Table 1. Summary Table

Thematic Area	Overall Rating	Summary Assessment	Main Drivers of Change	Main Barriers to Change	Norway's engagement
Domestic Resource Mobilisation (DRM)	D – Weak	Revenue targets were met in the previous year, but the tax-to-GDP ratio remains low. Domestic revenue capacities vary considerably across the federation and rely heavily on customs taxes. Administrative capacity is relatively low but has been improving, with several reforms introduced.	Efforts are being made, especially to strengthen tax policy, enhance revenue collection from income taxes, excise taxes, and non-tax revenue sources, and to streamline and harmonise customs taxation. New and updated legislation has also been introduced. These initiatives are being led by the FGS and FMS and are supported by four donor programmes, including the World Bank's RCRF-3 and SERP programme, FCDO's PREMIS 2, and the IMF's SCF programme.	There is a lack of coherent frameworks for excise policies. Tensions between FGS and FMSs also pose a risk to the fiscal harmonisation process. Further, the competition from informal tax collectors, the threat of AS, and political settlement dynamics make it challenging to engender taxpayer willingness, especially among businesses.	Norway through the Embassy supports the WB-MPF programme, which funds the WB-RCRF-3 and SERP programmes.
Public Financial Management (PFM)	D – Weak	Somalia runs a chronically high structural trade deficit, and its public expenditure-to-GDP ratio lags behind that of comparator countries. The reliability, credibility and transparency of the budgetary process have been a persistent concern. The foundational elements of fiscal reporting have been established but remain disjointed, highlighting the need for greater fiscal harmonisation. There is also currently no specific architecture to support climate- and gender-informed budgeting.	With support from projects such as SERP, RCRF-3, PREMIS 2, and SCF, the Somali government has been working to enhance the credibility and reliability of its budgetary processes by introducing systems for robust revenue modelling. Attempts have also been made to improve the transparency of the budgeting processes, with reforms focused on publishing the citizens' budget, preparing a mid-year budget analysis by the FGS, and enhancing the timeliness of in-year budget execution reports. There have also been improvements in financial reporting practices.	Owing to the threat posed by AS, a significant proportion of the spending is directed towards security-related expenses. The persisting tensions between FGS and FMS risk undermining efforts to support harmonised budgeting, financial reporting, and management.	Norway supports the WB-MPF programme, which funds the WB-RCRF-3 and SERP programmes.
Statistical Capacity (NSS)	D – Weak	A separate statistical agency has been established; however, its effectiveness is undermined by weak coordination, capacity constraints, and limited credibility. Considerable gaps exist in data quality and in statistical and economic capacity. There are also limited mechanisms for data sharing, institutional	The Somali National Bureau of Statistics has been established as the principal statistical agency. The SNBS has been working with Ministries and FMSs to establish coordination and data-sharing mechanisms. External partners, such as WB's Somali Integrated Statistics and Economic Capacity Building (SISECB)	The success of the SNBS Strategic plan hinges on political support, consistent implementation, and improved accountability mechanisms across all stakeholders, which have yet to be realised. Data also remains highly politicised in Somalia. There is also the issue of data privatisation, as external	Norway supports the WB-Multi Partner Trust Fund (MPTF), which funds the Somali Integrated Statistics and Economic Capacity Building (SISECB) programmes. Norway, along with the

Thematic Area	Overall Rating	Summary Assessment	Main Drivers of Change	Main Barriers to Change	Norway's engagement
		linkages, data integration and harmonisation.	and the UN Resident Coordinators' office, have made significant contributions to the development of the statistical system, particularly through capacity building and technical system reform.	partners have been unwilling to share data with SNBS and other government agencies due to limited capacity for data management and storage.	Common Market for Eastern and Southern Africa (COMESA) and the Food and Agriculture Organisation (FAO), has also supported the Directorate of Production Statistics' workshop to enhance staff capacity in food security data processing and analysis.
Anti-Corruption (ACA)	D – Weak	Corruption is a persistent and prevalent problem, making it challenging to prevent and prosecute corruption and illicit financial flows. In grappling with these challenges, several initiatives have been undertaken, including the establishment of an independent Anti-Corruption Commission, AML/CFT bodies and the office of the Auditor General; however, the enforcement capacity of these institutions is relatively low.	Anti-corruption efforts are being led by the Anti-Corruption Commission (IACC), which has also initiated the National Anti-Corruption Strategy (NACS). Bodies such as the National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Committee and the Financial Reporting Centre (FRC) have also been established to lead the country's AML/CFT efforts. Donor support has come in the form of support for the FGC and the OAG.	The problem of corruption in Somalia is also deeply rooted in the country's overarching political settlement. The use of informal systems and processes, along with the diversion of public money and funding, is central to how power and resources are distributed and how a semblance of political stability is maintained. The enforcement of IFF reforms is also complicated by the threat posed by AS, which continues to make use of banks and mobile money systems.	The Embassy, through INOSAI, is supporting the strengthening of the Auditor General's Office (OAG) and is focusing on the goals outlined in the AG's strategic plan: publication of high-quality audit reports, internal governance, and external communication.

1. Introduction

This report is intended to serve as a reference point against which future progress and changes in Somalia's performance across key areas—Domestic Resource Mobilisation (DRM), Public Finance Management (PFM), Statistical Capacity, and Anti-Corruption—can be measured. It is not just descriptive, but a benchmark for assessing reforms, identifying gaps, and guiding Norad's Governance and Public Finance portfolio strategy and engagement over time. This introductory section “sets the stage” by addressing the broader political context and highlights the progress made in instituting the basic rubrics of formal state capacity.

Somalia is recovering from two decades of protracted conflict and statelessness. Following the collapse of the government in 1991, Somalia descended into a period of protracted conflict and statelessness that lasted almost 20 years. It was not till 2012 that the first post-transitional government was established. A new provisional constitution was also passed at this time, establishing a federal political structure. Since 2012, Somalia has also successfully held three peaceful yet indirect elections at the federal level, and five new federal member states have been created – including Jubaland (JSS), Puntland, South-West State (SWS), Hirshabelle (HSS), and Galmudug (GSS) (Bryden, 2013; Hammond, 2013). To the north-west of the country lies the non-independent state of Somaliland, which unilaterally declared its independence from the rest of the country in 1991 (See Table 2. Somaliland's Separate Status For a justification for why we do not include Somaliland in the report.)

Somalia has made impressive strides in domestic revenue, macroeconomic management and stability. Despite having to rebuild basic institutions from the ground up, significant achievements have been made in recent years. The country's domestic resource capacity has been increasing, with domestic revenue rising to 3% of GDP in 2024 (World Bank, 2025). Institutional foundations for public resource management have also been put in place, including (i) enactment of a modernised Public Financial Management Law in 2019 and an Audit Law in 2023, (ii) implementation of financial management information systems, (iii) the establishment of a Somali National Bureau of Statistics (SNBS) under an updated version of the Statistics Law (2020) (World Bank, 2024b). Progress has also been made in addressing the considerable corruption-related challenges, including, for instance, the establishment of the National Anti-Corruption Strategy (NACS), the first Somali government policy on anti-corruption (SNBS, 2024b).

Somalia has reduced its debt burden and achieved closer regional cooperation. FGS's sustained commitment to PFM reforms enabled the country to achieve debt relief under the HIPC initiative and re-enter the global financial system after nearly two decades of isolation. At the Completion Point in December 2023, Somalia's debt stock reduced from 64% of its GDP to 5.5% of its GDP (International Monetary Fund, 2023; World Bank, 2024b). In March 2024, another milestone was achieved when Somalia secured the cancellation of nearly all its debt to the Paris Club member states². At the end of 2023, Somalia was also formally inducted into the East African Community (EAC) – a regional intergovernmental organisation and trading community. The country's accession to the EAC is expected to facilitate its integration into the region and bring in substantial economic benefits. (Heritage Institute, 2023).

Despite such progress, the country continues to face formidable challenges. Somalia ranks as the world's most fragile state (Fund for Peace, 2024). Despite efforts to enhance its capacity, the Somali state has minimal capability and is unable to deliver even basic services, such as security and law and order. The Worldwide Government Effectiveness Indicator, for instance, ranks Somalia among the lowest in government effectiveness and accountability (World Bank, 2024a). Additionally, the 2022 Bertelsmann Stiftung's Transformation Index indicates that Somalia's governance performance, particularly in terms of capability, resource efficiency, and consensus building within the government,

² The Paris Club has 22 permanent member countries, primarily wealthy nations and major creditors like the US, UK, Japan, Germany, France, and others from Europe and Oceania, plus Brazil, Russia, and South Korea. These members are official creditors that meet to coordinate debt restructuring for developing countries facing payment difficulties, working with international bodies like the IMF and World Bank.

lags that of regional and structural peer countries – other fragility, conflict, and violence-affected (FCV) countries (World Bank, 2024d).

The Federal Government’s authority, while expanding, is also limited and reliant on the AUSSOM (African Union Support and Stabilisation Mission), which replaced the previous African Transition Mission in Somalia (ATMIS). Somalia is the seventh most terrorism affected country, primarily owing to the threat posed by Al-Shabaab (AS), which is among the world’s deadliest terror group³ (IEP, 2025). AS retains control over large parts of rural Somalia and has been successful in raising taxes⁴ and providing core governance functions (Ahmad et al., 2022; GI-TOC, 2025). Despite efforts by the Somali National Army and the AUSSOM forces to defeat the group, the AS insurgency has proved resilient. The security situation in many parts of rural south-central Somalia has consequently been deteriorating. (IEP, 2025) and is expected to be further undermined if there are additional cuts to funding for the AUSSOM forces⁵.

Politically, tensions persist between the FGS and the Federal Member States. The constitution remains a provisional document and does not specify the division of power and federal responsibilities, nor does it define tax types, revenue distribution mechanisms, or the roles of federal and state authorities (Rift Valley Institute, 2025). Elections at both the Federal and Member State levels remain indirect and clan-based. The lack of constitutional agreements on federal responsibilities, along with disagreements regarding the transition from an indirect to a direct model of elections, has heightened tensions in recent years⁶. If it remains unresolved, the conflict can potentially weaken the federal government’s power and undermine the constitutional order, which remains a work in progress (Tesema & Mohammed, 2025).

Somalia’s socio-economic indicators are among the lowest in the world. Years of conflict, instability, violence, and a weak governance system have contributed to poor access to basic services and left several generations of Somalis unable to achieve their potential. Somalia’s Human Development value of 0.404 puts the country in the Low human development category—positioning it at 192 out of 193 countries and territories (United Nations, 2025). The country’s health and education indicators remain among the worst in the world, with an average life expectancy of 56 years, and with less than 25% of school-age children enrolled in primary or secondary schools (World Bank, 2025c).

Gender based inequalities are particularly pronounced in Somalia. Somalia’s GII score of 0.675 reflects among the highest levels of gender inequality globally, driven by stark reproductive health gaps, low educational attainment for women and minimal representation in formal decision-making. Despite playing an especially dynamic role in Somali society as community mobilizers and peacebuilders, women continue to be excluded from political and public decision-making and have limited space (even at the community level) to exercise agency and participate in society. All forms of vulnerability are deeply gendered, with women and girls confronting significant gender disparities, including high levels of sexual and gender-based violence (World Bank, 2024d).

The pace of economic growth is improving, but it remains insufficient to reduce poverty. In per capita terms, growth is modest, with an average real GDP per capita growth of 0.4% from 2019 to 2024, which is insufficient to reduce overall levels of poverty (World Bank, 2023). Although poverty levels are decreasing, they remain high, with more than half the population (54% in 2023) living on less than

³ The four terrorist groups responsible for the most deaths in 2024 were Islamic State (IS), Jamaat Nusrat Al-Islam wal Muslimeen (JNIM), Tehrik-e-Taliban Pakistan (TTP), and al-Shabaab

⁴ AS collects zakat payments —forced charitable tax— and levies on trade and real estate transactions. The group reportedly generates over USD 100 million annually, with an estimated one-third of its revenue derived from Mogadishu alone

⁵ Up to 75% of its budget may be provided by the UN peacekeeping budget (of which the US and China are providing about 40%) with the rest being provided by the EU and bilateral donors as well as the AU. This funding has not been forthcoming, and it remains severely underfunded. The Trump administration has also signalled its intention to cut back on support for peacekeeping, which may further affect the AUSSOM.

⁶ In October 2024, the National Consultative Council (NCC) convened federal and state officials to discuss democratisation, security issues, and the election system. The federal government also reaffirmed its commitment to replacing the indirect, clan-based voting system with universal suffrage for the forthcoming 2026 national and regional elections. Moreover, the NCC proposed a one-year term extension for all state presidents until the universal suffrage system could be implemented. While leaders of Hirshabelle, Galmudug, and Southwest states backed the proposal, Jubaland President Ahmed Mohamed Islam (Madobe) rejected it, citing risks of centralisation undermining regional autonomy. This disagreement over electoral reforms and constitutional amendments led Jubaland to sever ties with the FGS.

USD 2.06 per day (World Bank, 2023). At the same time, the medium-term economic recovery is expected to be modest (4%), especially if geopolitical conflicts and trade tensions continue to escalate and global growth outlooks remain poor⁷ (World Bank, 2024d, 2025c).

The economy's productive capacity is limited and susceptible to exogenous and climate-related shocks. Growth is driven by the primary sectors of the economy, such as agriculture and livestock, which together account for nearly 65% of the GDP. In recent decades, the growth of service sectors, including financial and telecommunications, as well as retail-related services, has been steadily increasing. However, the productive capacity of primary sectors is limited by persistent exposure to climate-related shocks, poor soil quality, low public investments and weak extension services. As a consequence, Somalia remains dependent on food imports, further compounding the country's chronically high structural trade deficit (62.1% of GDP in 2024) (World Bank, 2024d, 2025c).

Somalia's domestic resource mobilisation is among the lowest in the world. Low economic growth and productive potential have contributed to a low domestic resource base. DRM capacity is also hindered by multiple tax authorities (both formal and informal), outdated legal systems, limited administrative capacity, and low levels of tax compliance. Consequently, more than half (60%) of the country's budget is funded by external grants (World Bank, 2024d, 2025c).

Despite achieving debt relief, the country's PFM capacity remains weak. While expenditure capacity has improved in recent years, fiscal expenditures have been rising rapidly, increasing the risks of re-accumulating debt arrears. The credibility of the budgetary process and macroeconomic modelling remains low, especially given the country's weak statistical capacity. Moreover, fiscal federalism challenges remain as critical parts of Somalia's federal model have been undefined, including agreement on a model for fiscal federalism, which parts of the government have the right to raise and spend revenue (World Bank, 2022b, 2024d, 2025c)

Somalia also remains one of the most corrupt countries in the world. In 2023, it ranked as the second most corrupt country after South Sudan (Transparency International, 2024). Furthermore, the Anti-Corruption Agency's capacity remains relatively weak, and the extent of its implementation remains unclear. Further, despite key audit reforms, there continue to be delays in carrying out audits and the level of implementation of audit recommendations is inconsistent (World Bank, 2022b).

Several donor interventions have been implemented to assist Somalia in meeting these challenges. In particular, several governance and PFM-specific programmes are funded by the World Bank's Multi-Partner Fund (WB-MPF), which serves as a platform for coordinated financing to support the sustainable reconstruction and development of Somalia, focusing on core state functions and socio-economic recovery. Norway is one of the largest contributing countries to the WB-MPF. In 2024, it contributed 100 million NOK to the fund⁸ (World Bank, 2024c).

Additionally, the IMF, through the Somalia Country Fund (SCF), has been involved in supporting wide-ranging reforms to strengthen key economic and financial policy institutions since 2016. The SCF played a crucial role in helping Somalia reach the Heavily Indebted Poor Countries (HIPC) Completion Point. Under the SCF's current programmatic phase (2021 to 2025), the IMF provides capacity development assistance to the Somalia authorities in the following areas: Tax policy, revenue administration, PFM, expenditure policy, financial sector legislation, regulation, and supervision, central bank organisation and macroeconomic Statistics (International Monetary Fund, 2025b).

Major donors, such as the Foreign, Commonwealth and Development Office (FCDO), have also provided bilateral support to governance and PFM programmes in the country. FCDO's main PFM and fiscal harmonisation programme include the Public Resource Management in Somalia programmes (Phase I and II) (FCDO, 2025). Additionally, the EU-Trust Fund has been supporting governance and

⁷ Global growth is estimated at 2.8% in 2024.

⁸ Projects are also funded by the UN-MPF, a similar platform for pooled funding to the WB-MPF, but these mainly relate to peacebuilding, rule of law and humanitarian programming. However, the main governance and PFM-related programmes include the Local Governance and Decentralised Service Delivery JP in Somalia - a joint venture was established to support stakeholders in improving effective and efficient management outcomes in regional and district councils and increasing public investment in basic services. Norway contributed USD 250 million to the UN Peace Fund.

Public Financial Management (PFM) in Somalia, mainly through budget support under the Somalia State and Resilience Building Contract (SRBC). Funding is awarded against progress in governance and PFM-related reforms, including domestic revenue mobilisation, advancing fiscal federalism, and improvements in budget transparency and oversight (EU, 2025).

Globally, donor funding from OECD countries is on a downward trajectory, risking the gains made in strengthening governance and PFM systems. Donor spending is expected to decrease significantly in 2025 following the USD 5 billion reduction in US Aid and the closure of the US Agency for International Development (USAID). In 2025, least developed countries (LDCs) are projected to see a 13-25% fall in Overseas Development Assistance (ODA) from Development Assistance Committee (DAC) providers, with countries in sub-Saharan Africa set to face a 16-28% decline in funding (OECD, 2025). According to a recent IMF report (2025a), the decline in official assistance to programmes supporting agriculture, health, education, water, sanitation, and hygiene is already being felt on the ground in Somalia, as many vulnerable groups face reduced access to social assistance.

The remainder of the study is structured as follows. Sections 3, 4, 5 and 6 present assessments for each of the four key areas: Domestic Resource Mobilisation (DRM), Public Finance Management (PFM), Statistical Capacity, and Anti-Corruption. Within each area, we identify key assessment dimensions to evaluate progress, which can be revisited over time. We also provide a qualitative assessment of the current status based on the available information. For this purpose, we apply a four-point A–D scale aligned with international diagnostic frameworks such as PEFA and TADAT. The scale reflects both institutional strength and reform momentum: A = Strong, B = Moderately Strong, C = Moderately Adequate, D = Weak. To distinguish dimensions that are weak but are improving, we use a plus sign. In the conclusion section, we take stock of the political economy context and discuss the key obstacles to reforms and some levers of change.

Table 2. Somaliland's Separate Status

The breakaway state of Somaliland has been a self-governing region for more than three decades. However, the region's claim for independence is not recognised by Mogadishu or any foreign government. Its history as a separate region dates back to the colonial era, when it was a British protectorate, unlike the south-central part of the country, which was under Italian rule. The region's merger with the rest of the country in 1960 was contentious from the outset, as many in Somaliland rejected the centralisation of power in the south.

Today, Somaliland is considered to be one of the most stable and peaceful democracies in the region. Along with holding separate elections, Somaliland has its own currency, security forces, and issues its own passports. The region is also governed by a separate constitution and is excluded from Somalia's 2012 Provisional Constitution, which applies only to the FGS and the five FMSs.

The donor community have made accommodations for Somaliland's claims of independence and developed separate mechanisms to fund the region. This includes the multi-donor Somaliland Development Facility. Norway provides financial support to this Fund, and also supports development projects in Somaliland through other channels. Norway does not provide any funding for public finance management and economic governance in Somaliland. Somaliland is therefore not included in this study.

2. Domestic Resource Mobilisation

Improved and more just revenue mobilisation is a key outcome in the Norad portfolio. Revenue performance underpins fiscal planning, and weak and politicised DRM (e.g., tax exemptions) directly undermines budget credibility and impacts PFM capacity. Moreover, DRM is the foundation of state capacity to fulfil other priorities, including building statistical capacity and implementing anti-

corruption efforts. The following section takes stock of Somalia's record on DRM, assesses the nature of its tax and revenue administration system, and evaluates the potential to broaden the tax base. Next, the ongoing reform initiatives for strengthening external support are discussed. Lastly, a qualitative assessment is presented to summarise the gaps for designing future programming efforts in the country.

2.1 Tax system

Overall, while fiscal revenues remain very low, there have been steady improvements in recent years. The country's domestic revenue-to-GDP ratio of 3% (2024) is lower than that of most fragile and low-income countries in Sub-Saharan Africa⁹ (World Bank, 2025c). However, FGS's domestic revenues have been increasing and were slightly higher in 2023 at 2.8% of GDP, compared to 2.5% in 2022 (World Bank, 2024b). In FY 2024, the FGS exceeded its domestic revenue target by 6.7% as revenues increased from USD 329.5 million in 2023 to USD 369.4 million (representing a 12% increase) (FGS, 2025).

Tax revenues represent a larger share of domestic revenues. There are two primary sources of domestic revenues: tax revenue and non-tax revenue. Tax revenues have consistently represented a higher share of the revenue budget and accounted for 72% of the Federal domestic revenue budget in 2024, which is significant given the strong links between tax revenues and governance outcomes (FGS, 2025; Raballand & Knebelmann, 2021).

Customs taxes account for a significant share of tax revenue. As in other FCV countries, customs revenue accounts for a significant share of total revenues. Customs taxes represented about 46% of the tax revenues (FGS 2025; Raballand & Knebelmann 2021; World Bank 2024d). Taxes on goods and services accounted for the second-largest category of tax revenues (14%) (World Bank, 2025c)

The share of income and corporate taxes is considerably lower but increasing. Over the past decade, taxes on income and corporate taxes have accounted for less than 10% of tax revenues. The share of such taxes increased to 10% of tax revenues in 2024 (World Bank, 2025c). Individual income taxes brought in USD 31.87 million, which was 167.5% of the target, whereas corporate taxes brought in USD 4.3 million, which was 102.5% of the target (FGS, 2025). In the absence of an updated legal framework, the collection of corporate taxes has been a particular concern. Corporate tax liabilities were determined through a bargaining process and were only weakly determined based on an official tax rate (Raballand & Knebelmann, 2021). However, with the passage of the Income Tax Law, 2025, the tax rates have been updated for both personal and corporate income taxes, and the share of revenues from income tax is expected to improve.

Non-tax revenues are considerable and have increased substantially in recent years. Since 2014, non-tax revenue has accounted for more than 20% of domestic revenues, and it is projected to rise to 28% by 2024. The increase has been driven by service fees from key sectors such as ports, airports and telecommunications licensing (Rift Valley Institute, 2025; World Bank, 2024b). However, these revenue sources tend to be low-yielding because they cover costs such as passport or driver's license issuance fees, and hence gross revenues are allocated to expenditure items (World Bank, 2024b). Revenues are therefore not available in the global domestic revenue pool, as with tax revenues, and do not contribute to fiscal sustainability targets.

Domestic revenues remain insufficient to meet the country's developmental needs (World Bank 2024a). Somalia remains reliant on external grants and aid, with more than half of its budget (60%) supported by these sources (World Bank 2024a). Grants comprise both budget support and project-based funding from development partners.

There is a lack of harmonisation of tax systems across the regional entities. The Provisional Constitution does not provide for a division of resources or a system of intergovernmental transfers. Consequently, tax revenue collection is administered separately by FGSs and FMSs, with each utilising revenue within its jurisdiction without remitting funds to the other. While FMSs typically collect taxes

⁹ A review of IMF Government Finance Statistics (GFS) data on 13 LICs in SSA shows that the yearly tax-to-GDP ratio was 14–16% for each year between 2019 and 2022 (IMF GFS 2023 and World Bank).

within their jurisdiction, the FGS’s tax collection is restricted to the Banadir region. In the absence of effective harmonisation of tax assignments, taxpayers often end up paying multiple taxes. For example, corporations must pay corporate taxes in both Mogadishu and the FMSs. The lack of harmonisation of tax rates has also contributed to tax competition, especially in trade taxes (Rift Valley Institute, 2025; World Bank, 2022a).

Considerable heterogeneity exists in tax capacities across the regional entities. The domestic revenue capacities, while increasing, vary considerably across the FMSs. The FGS generates nearly two-thirds of all revenues. Puntland (PSS), which has the largest budget of the five FMSs, saw a marginal increase of 1.2% in actual collection to USD 85 million compared with the previous year, while JSS, the second-largest FMS, saw the highest growth of 56% to USD 29.5 million (FY2023) (World Bank, 2024b). Although own-source revenues increased across the other three FMSs during this period, the revenue base remains too low, with grants playing a critical role in supporting fiscal operations (World Bank, 2024b, p. 11).

Tax compliance is low due to low legitimacy and the capacity of state institutions. The social contract is weak, as the state's capacity to provide reciprocal public services, including security, is relatively low. Formal institutions also lack legitimacy and are less trusted than traditional or communal authorities, reflecting dissatisfaction among Somalis with the state's lack of accountability in managing public resources. The plethora of informal tax-collecting authorities, including groups such as Al Shabbab, has also increased tax burdens and adversely impacted the collection of formal taxes. Additionally, limited citizen engagement and taxpayer education have led to low accountability in revenue collection.

Figure 1. Composition of Domestic Revenues

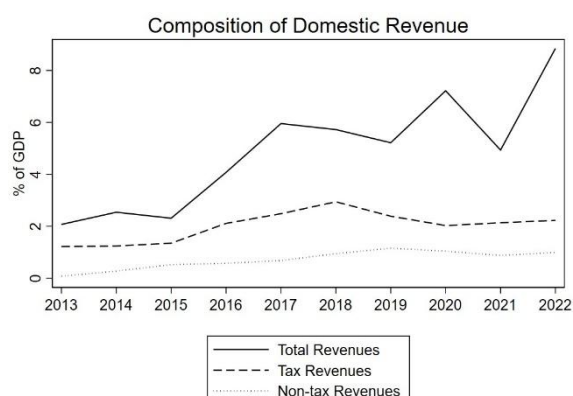
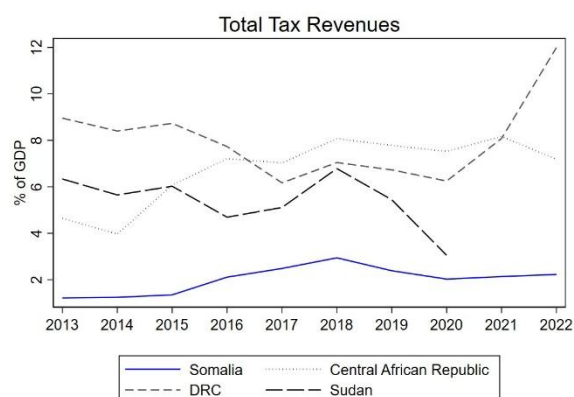


Figure 2. Somalia's Tax GDP Ratio compared with other Fragile States



2.2 Revenue administration

At the federal and state levels, revenues are administered by the respective MoFs. Revenues are administered by the Ministry of Finance at the federal level and by the respective ministries of finance in the FMSs, rather than by an independent revenue authority, as is the case in other Sub-Saharan African countries. At the FGS level, DRM is the primary responsibility of the Revenue Department, which is further divided into the Inland Revenue Department (approximately 230 employees) and the Customs Department (approximately 100 employees) (World Bank 2017). Enforcement activities are carried out by the Fiscal Police within the Police Force (E&Y 2017). The Inland Revenue Department is divided along tax categories (for direct taxes, indirect taxes and non-tax revenues) (Raballand & Knebelmann, 2021).

Local district councils or municipal authorities typically handle district-level tax collection. These entities are responsible for collecting various taxes - including property taxes, market fees, and local business licences - under agreements with their respective state-level MoF. Collection methods vary

widely, ranging from manual, in-person payments to more organised systems, in which businesses and individuals are required to make payments at designated offices or by bank transfer. However, in the absence of any legal framework assigning tax collection responsibilities between districts and FMSs, the assignment of revenue collection responsibility is left up to the FMSs, leading to ambiguities and fostering tax competition between the two levels of government (Rift Valley Institute, 2025).

The legal framework remains outdated, though efforts are underway to modernise existing legislation. The 2012 constitution states that existing laws (including those enacted under a unitary legal regime), unless completely redefined, remain in effect. As a result, tax rates, valuation methods, definitions of taxable goods, lists of taxpayer categories, and tax-exempt goods and services remained largely unchanged since 1991. Recent reforms have begun to modernise Somalia’s legal framework. In 2019, the Revenue Administration Law was introduced to modernise tax administration and enhance tax collection. The RAL establishes mechanisms for taxpayer registration, assessments, and the issuance of Tax-Compliance Certificates (TCCs) to taxpayers, covering both inland and customs taxes. In 2022, a new Customs Tariff Law was also introduced, and the Somali Customs Automated System (SOMCAS) was launched to align customs procedures with international standards. Furthermore, the Somali Parliament passed an Income Tax Bill in May 2025, signifying progress toward establishing a modern framework for income tax (Rift Valley Institute, 2025) (See Annexe table 7 for further details of the changes to the legal framework).

Specialised offices have been created to improve institutional capacity. In 2019, the Federal Ministry of Finance established a Large and Medium Taxpayer Office (LMTO) in Mogadishu to mobilise taxes from large and medium-scale business entities, which represent a significant proportion of Somali businesses (Mohamud & Isak, 2019, p. 131). LMTO is also intended to provide such taxpayers with relevant information and facilitate their tax compliance.

Institution of the Intergovernmental Fiscal Forum (IGFF) to promote fiscal federalism. Since 2015, the FGS has engaged in regular intergovernmental dialogues concerning fiscal arrangements, revenue sharing, tax regimes, and customs harmonisation through the IGFF Technical Committee (IGFFTC), while neglecting the creation of the constitutionally mandated Inter-State Commission. This committee—composed of MoF directors general from both the FGS and FMSs; the Director General of Revenue (who also serves as the IGFFTC coordinator); the Recurrent Cost and Reform Finance project coordinator; and technical experts from FGS and FMS tax revenue departments—aims to enhance coordination on fiscal matters across government levels.

Baidoa Agreement on harmonising revenue laws. The Baidoa agreement in March 2023 is among the most significant agreements on harmonising revenue laws. The Agreement set out a path to centralising the collection of both inland taxes and customs taxes, while establishing an equalisation pot to allocate funds equitably among the FGS and FMSs (Rift Valley Institute 2025). As part of this initiative, two key revenue commissions—the National Revenue Authority and the Commission on National Finance Allocation and Acceleration—were to be tasked with enhancing countrywide tax revenue management. Additionally, the agreement outlines the terms by which the national financial system is to be federalised, including the division of customs duties—with the FGS responsible for collecting some taxes, the FMSs for others, and a collaborative effort required for certain taxes (Rift Valley Institute, 2025). Implementing the provisions of the Baidoa agreement has proved challenging. There have been persistent delays in establishing the National Revenue Authority and the Commission of the National Finance Allocation and Acceleration Committee due to ongoing disputes between the FGS and Puntland, which did not participate in the agreements. The agreement on harmonising tax rates, agreed in August 2023, has also not been implemented (at the time of writing)¹⁰(Rift Valley Institute, 2025).

¹⁰ This is because the process of updating FMS-level tax laws varies between states, with some requiring approval from their respective parliaments. However, as of August 2025, most FMSs had developed draft tax laws. However, according to tax experts, the full implementation may be hindered by the lack of a federally constructed revenue agency, which FMSs believe is essential for institutionalising the agreement.

A rules-based system of intergovernmental transfers from FGS to FMSs remains a challenge.

Under the aegis of the Intergovernmental Fiscal Forum (IGFF), an agreement was reached on the transfer of grants for budget support based on a 60:40 formula, whereby 40% of the donor grants were to be transferred to FMS, and the remaining 60% was to the FGS. Despite these efforts, the transfers have yet to achieve the constitutional goal of fair resource distribution. The arrangement provides insufficient funding to equalise the significant differences in revenue-raising capacities between states with operational maritime ports and those without (Rift Valley Institute, 2025).

Overall, revenue collection in Somalia is hampered by weak institutional capacity, lack of sound tax administration systems and a fragmented administrative structure that has often placed the Federal Government of Somalia (FGS) at odds with Federal Member States (FMSs) (Rift Valley Institute, 2025).

2.3 Tax base and potential for broadening the revenue base

The absence of broad-based revenue sources constrains DRM. The country is mainly dependent on customs revenue, including customs taxes and external grants. However, these sources of revenue are extremely volatile; for instance, customs taxes are subject to internal and external shocks (such as inflationary pressures, trade shocks, and drought). Similarly, external grants depend on the commitment and priorities of development partners, which can change quite unexpectedly with little or no accountability (e.g. cuts in US aid funding). Furthermore, none of these primary sources of revenue are responsive, meaning they are not linked to any underlying movements in the economy, which also means that they are not highly predictable (World Bank, 2024d).

Low economic diversification also challenges broadening the revenue base. The primary sectors, particularly agriculture and livestock, are dominant in the economy, employing close to 70% of the population. There is very little economic diversification. Except for a few businesses like Telecoms, banking and remittance businesses, much of the economy operates in the informal sector. Consequently, there are few sources for robust and broad-based tax bases (World Bank, 2025c).

Climate-related risks disrupt revenue generation. Somalia is among the most climate-at-risk countries in the world and is particularly exposed to weather-related volatilities, which pose a serious threat to economic development. Over the past two decades, the country has experienced 14 droughts that have devastated the country's agricultural sector. Locust infestations and recurrent flooding have further aggravated these challenges (World Bank, 2023). As a result, growth has been low and volatile, exacerbating the high poverty rates across the country and lowering the prospect for broadening the tax base and increasing DRM.

Reforms and measures have been introduced to broaden the tax base. Recently, broad fiscal policy reforms and operational improvements in tax administration have been introduced to broaden the tax base, improve efficiency, and reduce tax evasion. The initiatives introduced are discussed and elaborated upon in the following paragraphs.

- **Improving the collection of Income Tax revenues.** The Income Tax bill, mentioned earlier, was passed to modernise the existing legislation and harmonise the tax schedule across the federation. The new law places specific emphasis on collecting personal income tax from new businesses and large and medium-sized taxpayers. However, the rollout and implementation of the updated tax rate schedules, including those for corporate taxes, require substantial modifications to existing income taxation laws across the federation. The FMS income tax laws are currently being updated to align with the new harmonised laws. However, it is currently unclear how the new 18% rate for large and medium enterprises will be applied across the various tax bases and delineations in the FGS and FMS. In terms of revenue yield and efficiency, harmonisation of tax base definitions is clearly preferable. However, revenue generation may suffer over the short term, as the base definitions and classifications are being aligned (World Bank, 2024d).
- **Modernisation and harmonisation of customs taxes to improve efficiency and reduce competition.** Efforts in recent years to modernise and enhance technical capacity have focused on the customs schedule—to harmonise the tariffs across ports in the FGS and FMS; to introduce a

common valuation table, based on the ad valorem concept at valuation of goods¹¹ and services; and, in general, to improve customs administration (digitisation and automation of various customs processes). All three elements are being brought together under the Somalia Customs Automated System (SOMCAS), a more comprehensive web-based automated customs system, which aims to facilitate accurate and efficient processing and higher revenue collection (World Bank, 2024d). The full transition to SOMCAS across all of Somalia's maritime ports remains a key objective, but varying levels of adoption and technical capacity across regions pose ongoing challenges (Rift Valley Institute, 2025). Currently, SOMCAS is operationalised at both the seaport and airport in Mogadishu, as well as at the seaport and airport in Kismayo. However, while Puntland initially began implementing SOMCAS, it later stopped following its standoff between with the FGS.

In 2023, Somalia acceded to the East Africa Community¹², a regional trading organisation which establishes a common market where no tariffs are imposed on goods and services originating from and exchanged within the bloc¹³ (Rift Valley Institute, 2025). As part of its integration with the bloc, Somalia will need to align the valuation tables and tariff schedules with the EAC framework and standards¹⁴. It is expected that joining the common market will have a net positive impact on the Somali economy and enhance revenue generation. A recent report by the Heritage Institute (2023), however, warns that the Somali economy may also be adversely affected if it is unable to compete with larger and more established economies in the region, e.g., Kenya, Tanzania, and Uganda.

- **Excise taxes provide an option for enhanced revenue mobilisation.** Excise taxes are typically levied on products and services, imposed at any stage of production and distribution. Some excises have been established by the FGS, at exportation and importation, including on sugar and khat. In domestic taxation, excises are imposed on telecom services, though in some situations as an integrated part of the turnover-based income taxation of telecom companies. However, a clearer and more coherent strategy is needed between players (importers and exporters) and products. The excise strategy should also incorporate the excise tax harmonisation framework of the EAC (World Bank, 2024d).
- **Improving the collection of non-tax revenue sources.** There is potential to increase non-tax revenue from sources such as extractives, which may provide relatively important revenues over the medium to long term. A law on extractive industries was enacted in 2023 (IMF CR 23/438), and as the underlying regulatory framework emerges and bidding processes are brought to a close, estimates of income tax and royalty revenues, including flows and trajectories over time, will become feasible. Additionally, attempts are also being made to review and simplify the rate structure of road tax by digitising collection and expanding vehicle registration (World Bank, 2024d).
- **Streamlining tax exemptions.** As part of its tax policy reforms, the government plans to streamline the issuance of tax exemptions, ensuring they are granted on clear, transparent criteria rather than on discretionary decisions. These exemptions, applied at the ports and in some domestic indirect taxes, have impacted the profitability and, consequently, the income tax liability of the businesses in question. The awarding of tax expenditures, if not standardised, can also undermine harmonisation of tax rates across the federation, leading to tax competition and lower levels of revenue collection. Currently, only the FGS is preparing regular reporting on tax expenditures;

The import taxes are based on the value of the goods, rather than the size of the package, as was the previous practice.

¹² The EAC is a regional intergovernmental organisation of eight (8) Partner States, comprising the Republic of Burundi, Democratic Republic of Congo, Republic of Kenya, Republic of Rwanda, Federal Republic of Somalia, Republic of South Sudan, Republic of Uganda and United Republic of Tanzania, with its headquarters in Arusha, Tanzania.

¹³ EAC Partner States have agreed to establish free trade (or zero duty imposed) on goods and services amongst themselves and agreed on a common external tariff (CET), whereby imports from countries outside the EAC zone are subjected to the same tariff when sold to any EAC Partner State.

¹⁴ To implement EAC CET, Somalia will need to adopt harmonised system codes, detailed descriptions and standardised units of measurement, which are essential for tax consistency across all EAC member states. Additionally, the EAC adheres to World Trade Organisation valuation rules, which prioritise the price paid or payable as the primary valuation method, moving away from reliance on valuation tables (Rift Valley Institute, 2025).

however, reporting on tax expenditures as a regular activity is also beginning to emerge in Jubaland and Puntland (World Bank, 2024d).

- **Addressing gaps in the fiscal federalism framework.** The still-emerging fiscal federalism framework complicates efforts to achieve responsive, efficient taxation. It has led to multiple tax systems, tax competition and large vertical gaps in own-source revenues within the federation. These features hinder the federation's fiscal performance, and the issues are expected to worsen as revenue generation is expanded at the FMS level. To address these gaps, efforts are being taken to develop a framework for addressing intra-state multiple taxation at the IGFF level, completing income tax harmonisation and customs harmonisation (Rift Valley Institute, 2025).
- **Addressing issues of low tax morale:** Along with improving the tax administration and legal reforms, the government is also undertaking efforts to improve service delivery. The FGS has introduced a set of strategies within the National Development Plan (2020-24) to strengthen the social development sector. These efforts encompass initiatives to enhance access to health care services, including clean water, as well as improve educational opportunities (MPIED, 2019; World Bank, 2022b). The operationalisation of the Revenue Academy at Mogadishu, which has promoted citizen engagement by providing taxpayer education, represents a significant step towards improving both accountability and revenue collection (World Bank, 2024d).

2.4 External support for strengthening DRM

Several projects and donors are currently supporting efforts to improve revenue mobilisation. The main programmes include:

FCDO, PREMIS II: The programme aims to build a more effective and trusted federated public administration that contributes to the conditions for greater legitimacy, stability, and economic resilience in Somalia. In order to achieve this objective, the programme prioritises four key areas of intervention: strengthening DRM (and in particular customs modernisation), enhancing PFM, advancing fiscal federalism, and building the capacity of civil service commissions. The project is set to conclude in October 2025, and there are no current plans for continuation (FCDO, 2025).

WB, Recurrent Cost and Reform Financing Project III (RCRF-3): The programme is funded by WB-MPF (as previously mentioned WB-MPF receives substantial funding from Norway), and aims to support the Federal Government of Somalia and Eligible Federal Member States to strengthen resource management, systems, including financing of eligible civil service salaries, supporting the inter-governmental fiscal framework, and service delivery systems in health and education, including establishing continuous intergovernmental health. The project began in June 2020 and is expected to close in December 2025¹⁵ (World Bank, 2025b).

WB, Somalia Enhancing Public Resource Management Project (SERP): The Somalia Enhancing Public Resource Management Project, also funded through WB-MPF, aims to strengthen accountability, transparency, and institutional capacity in Public Resource Management across participating Federal Government and Federal Member States in Somalia. In terms of DRM, the objective of this component is to support the DRM priorities of FGS and FMS to strengthen their inland revenue systems and capacities, and to contribute to harmonising tax administration across FGS and FMS. In summary, the operation will support selected tax policy, tax administration, and taxpayer education and facilitation reforms, with gender and citizen engagement as a cross-cutting reform measure (World Bank, 2022b).

IMF, Somalia Capacity Fund, under its current programmatic phase (2021 to 2025), provides capacity development assistance to the Somalia authorities in the following areas, supporting the design of a sustainable tax policy system that is efficient and fair, while achieving revenue mobilisation needs. Core workstreams include income tax reform, revenue forecasting, policy analysis, and the fiscal regime of extractive industries. Additionally, the fund also supports revenue administration by focusing

¹⁵ It is not clear yet whether there will be a continuation of the programme beyond this period.

on strengthening the revenue administration’s institutional capacity to implement policy changes and mobilise revenue, focusing both on tax and customs administrations (International Monetary Fund, 2025b).

Table 1: Tax Revenue, 2019–24 (USD millions)

Revenue Stream	2019	2020	2021	2022	2023	2024	% 2023–24
Domestic Revenue	229.7	211.2	229.6	262.7	329.5	369.4	12%
Tax revenue	154.7	139.5	162.8	181.7	224.8	267.8	19%
Tax on Income, profit	11.7	16.2	15.8	18.7	24.4	36.2	48%
Tax on Goods and Services	25.0	21.3	23.4	32.8	38.3	52.4	37%
Taxes on International Trade	107.0	91.1	109.0	116.2	154.1	168.9	10%
Other taxes	11.1	11.0	14.6	14.1	8.0	10.3	29%
Non-tax revenue	74.9	71.7	66.8	81.0	104.7	101.6	-3%
Of which spectrum fees	8.7	1.7	1.2	4.1	8.4	5.4	-35%
External Grants	108.1	295.6	147.0	459.2	408.6	543.4	33%
Revenue and Grants	337.8	506.8	376.5	721.9	738.1	912.7	24%

2.5 Qualitative assessments

Overall, Somalia’s DRM framework is low as the country scores D on most relevant indicators. Specifically, the tax-GDP ratio is low due to a high reliance on customs taxation, underutilised potential in raising taxes from income sources, excise taxes, and non-tax revenue sources, limited standardisation of tax exemptions, low tax administrative capacity, and a lack of an adequate fiscal federalism architecture. The existing tax system is also not equitable, as limited administrative and enforcement capacity has allowed large corporate players to negotiate low tax rates. Additionally, the absence of a clear fiscal federalism architecture and the presence of numerous informal tax collectors impose an undue tax burden on Somali citizens, who pay multiple, overlapping taxes in exchange for limited returns.

With the support of the international community, Somalia has been making efforts to improve domestic resource mobilisation. This effort includes prioritising strengthening the tax policy framework, improving revenue collection from income taxes, excise taxes, and non-tax sources, and harmonising taxation while streamlining tax exemptions. Modernisation and harmonisation of customs taxes, in particular, have been critical in improving efficiency and reducing competition.

These policy changes have considerable revenue potential; nevertheless, several concerns remain. Specific concerns relate to raising income taxes from larger companies, harmonising tax laws across the federation, improving the fiscal capacity of FMSs, establishing coherent frameworks for excise policies, simplifying non-tax revenues and preparing regular reporting on tax expenditures. While emphasis is also being placed on improving the fiscal federalism framework, agreements on the division of powers and tax assignments between FGS and FMS remain a persistent concern. This is due to the absence of key agencies, including the National Revenue Authority, the Commission on National Finance Allocation, and the Acceleration Committee. Added to this is the need to bring fiscal decentralisation down to the local government level to improve public sector efficiency and enable service delivery to be more closely matched to citizen preferences.

Lastly, even if the government can expand its tax collection capacity and prioritise income and direct taxes, taxpayers’ willingness to pay taxes remains a critical issue. Taxpayer willingness is determined by various factors, including the government’s ability to provide basic goods and services. The Somali state’s limited capacity to deliver even basic security implies that the government faces formidable challenges. AS’s adeptness at levying taxes and extorting payments across the country has also undermined the government’s capacity to mobilise revenue.

The external support for DRM has been moderately strong in recent years, with four initiatives running in parallel. These initiatives have collectively supported tax policy and revenue administration (RCRF-3, SERP, and IMF), fiscal federalism and harmonisation (SERP and PREMIS2), and customs capacity development (PREMIS2). However, the RCRF-3 and PREMIS 2 programmes are drawing to a close in 2025. While some of the support for PREMIS 2 and RCRF-3 will be taken over by the SERP and IMF SCF programmes, there is a risk that some of the progress and momentum may be lost in the interim.

Table 3. Assessment summary: DRM

Assessment Area	Explanation	Qualitative Rating
Tax-to-GDP Ratio	The tax-GDP ratio is low even in comparison to comparator countries.	D
Revenue Target Performance (FGS)	Revenue targets were exceeded.	C
Revenue Target Performance (FMSs)	Domestic revenue capacities, while increasing, vary considerably across the FMS.	D
Revenue Composition	Reliance on customs taxes and low mobilisation of income taxes.	D
Progress on Tax Base Expansion	Non-tax revenues, such as excise taxes, have expanded, but further efforts are needed. The economy is also informal and driven by the primary sector, which also contributes to the low revenue base.	D

Administrative Capacity	Administrative capacity is low, but legal frameworks and capacity are improving.	D +
External Support	External support was considerable; however, two of the four programmes are ending, and it by November 2025 clear how future support will be provided and in what form.	B

3. Public Finance Management

Norad’s portfolio seeks to improve PFM that supports equity outcomes. PFM is closely interlinked with the other three areas of intervention. The inability to allocate resources in line with budget priorities and to meet taxpayers' needs can reduce tax compliance, and weak financial controls can also increase corruption. Furthermore, the low capacity for economic modelling can undermine efforts to strengthen statistical capacity. This section describes and assesses Somalia’s current public finance management (PFM), focusing on fiscal balance, system strengths and weaknesses, ongoing reforms, and the role of external support.

3.1 Fiscal balance

Somalia’s economy has been growing steadily despite challenges. The GDP growth was estimated at 4% (2024), driven by growth in agriculture and livestock, continued investment (albeit from a low base), and improved private consumption, supported by sustained growth in remittances (World Bank, 2025). However, in per capita terms, growth remains modest with an average negative real GDP per capita growth of 0.4% in 2019 – 24, which is not sufficient to generate the jobs needed to reduce poverty (World Bank, 2025c).

Somalia runs a chronically high structural trade deficit, as the economy is heavily import-dependent. The trade deficit widened slightly to 62.1% of GDP in 2024, from 60.8% in 2023 (World Bank, 2025c). This sharp rise reflects growing reliance on imported goods, particularly essential items such as food, fuel, medical products, and construction materials. Despite the high reliance on imports, the total exports of goods and services have more than doubled compared with the pre-COVID-19 pandemic level, reaching 20% of GDP in 2024, up from 13.1% in 2019 (World Bank, 2025c).

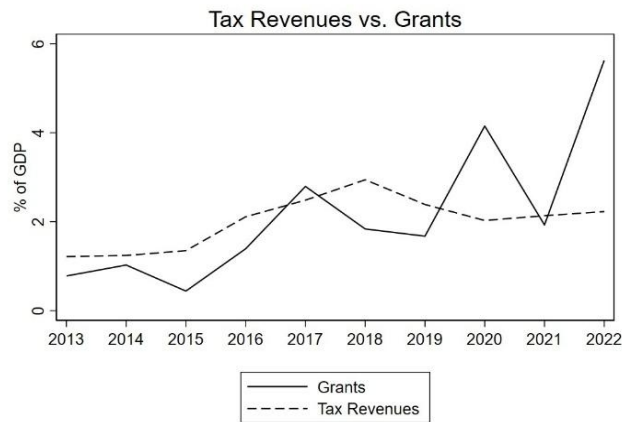
De facto dollarisation of the economy has helped to ease inflationary pressures. The collapse of financial and most public institutions in 1991 and the rise of mobile money have contributed to the effective dollarisation of the Somali economy (Iazzolino & Stremlau, 2023; World Bank, 2025c). However, dollarisation supports price stability as the Central Bank of Somalia (CBS) continues to develop its core functions. Overall inflation averaged 5.5% in 2024, down from 6.1% in 2023, and is projected to further slow to 4.2% in 2025 (World Bank 2025b).

Debt relief has substantially reduced Somalia’s external debt, including a cancellation of 99% of all debt owed to Paris Club members in March 2024, following the completion of the HIPC initiative. By the end of 2024, Somalia’s public debt was USD 778 million (6.1% of GDP), mostly external (World Bank, 2025). Somalia has also regained access to global financial markets and external borrowing opportunities.

Despite an upward trajectory, the public expenditure-to-GDP ratio lags behind comparator countries. FGS total public spending quadrupled between 2016 and 2022, displaying a gradual rise before COVID-19 and a sustained increase during the pandemic, peaking at USD 744 million in 2022. However, public expenditures accounts for only 7.14% of GDP, which is half the level observed in comparable federal state countries and one-third the level seen in FCV countries (World Bank, 2024b).

The current account deficit narrowed slightly but remains susceptible to volatility in external flows. The current account deficit narrowed slightly by 0.6% of GDP to 9.1% of GDP in 2024 on the back of strong growth in remittances and external on-budget aid (International Monetary Fund, 2025a; World Bank, 2025c). However, reductions in external grants (owing to cuts in ODA spending) and remittance transfers risk widening the current account deficit (World Bank, 2025c; Wrathall, 2025).

Figure 1. Somalia Tax Revenues and External Grants



3.2 Strengths and weaknesses of the PFM cycle

Somalia has made considerable strides in enhancing the public financial management systems and improving the credibility, accuracy, and transparency of its budgetary estimates, revenue forecasts, and expenditure and audit management systems. However, as has been emphasised earlier, the country is beginning from an extremely low starting point, and consequently, significant challenges remain. In the section below, we describe some of the strengths and weaknesses of the PFM cycle.

3.2.1 Strengths

FGS has made significant progress in passing legislation during the 2019–20 period. Relevant laws include the Revenue Act (2019), the PFM Act (2019), the PFM Regulations (2020), the FGS Public Procurement, Concessions and Disposals Act (2019), and the Audit Bill (2018), currently under drafting. The Revenue Act establishes the basis for modernising revenue administration and identifies categories of revenue that are subject to FGS jurisdiction. The PFM Act regulates all aspects of national budget preparation and execution, and establishes procedures for borrowing, debt management, and the management of natural resource revenues. The Procurement Act ensures transparency and efficiency in the process of acquiring public goods and services, as well as managing public assets and concessions. (Rift Valley Institute, 2025).

The transparency of the budget process and citizens' engagement have been steadily improving. To improve the FGS and FMSs, they have been publishing a citizens' budget, which presents a summary of the budget in a simplified and non-technical manner to help the public understand how revenues are raised and spent. However, aside from the publication of the citizens' budget report, no forums or platforms are available to enhance either citizens' engagement in public finance or their ability to absorb the information provided to them. (World Bank, 2022c).

The foundational elements of fiscal reporting have been established. FGS and FMS prepare quarterly budget execution reports in a timely manner and publish them on the websites. In addition, the FGS prepares regular in-year consolidated fiscal reports. Moreover, Somali governments have aligned their year-end financial reports with cash-basis international standards to provide information in a structured format. FGS has also commenced preparing ministry-level financial statements. Further improvements are needed to increase the comparability of these reports with the approved budgets, capture commitment information, and obtain an in-depth understanding of the variances, including receivables and payables (World Bank, 2022c).

Financial management systems have significantly improved. Reforms in FGS and FMS have led to improved use of the Financial Management Information System¹⁶(FMIS)s. These systems have been instrumental in ensuring the integrity of financial information and are a key tool for implementing the internal control framework. Key milestones include the use of the FMISs for government staff payroll and automated banking instructions in FGS, which enhanced the integrity of the payment system. Moreover, the FMISs are used for financial reporting, including the generation of in-year budget reports, annual financial reports, and other ad hoc reports that may be requested. (World Bank, 2022c).

3.2.2 Weaknesses

The budget as a tool for policy implementation is weak. There are variances between the original budget and the actual expenditures, undermining budget credibility. Low expenditure outturns are primarily the result of low revenue outturns, especially in FMSs. (World Bank, 2022c). However, there are also considerable variations in budgetary capacity across the FMSs, with slightly higher capacities in Puntland and JSS than in the newer member states. However, there have been recent improvements and budgetary processes, especially in revenue forecasting and macro-economic modelling. All FMSs routinely publish Budget Framework Papers, which outline macroeconomic plans, fiscal strategies, resource envelopes, and priority interventions.

Accurate forecasting of domestic revenues has been challenging owing to low capacity. Unrealistic fiscal frameworks, resulting from low institutional and human capacity, have led to budget cuts during implementation (World Bank, 2022c). The significant shortfall in the externally financed portion of the budget further exacerbates the issue of low revenue outturns¹⁷. The Somali Government controls only about half of the revenues, while the balance is externally financed. The portion of externally funded revenues has been increasing steadily over time. However, in 2021, only 55% of the revenue budget was met, and the majority of the revenue shortfall is related to external revenues. Poor information sharing of planned donor operations during budget preparation and weak implementation of results-based financing operations have contributed to this shortfall (World Bank, 2022c).

Public finance management systems have been developed but remain fragmented: While key public finance and human resource management systems have been developed or are under development, they remain fragmented and are not yet interoperable. The Human Resource Management Information System (HRMIS)s, for instance, is not integrated with FMISs, to avoid errors and fraud in payroll processing. There is a lack of harmonisation of financial management systems between the FGS and FMSs¹⁸ (World Bank, 2022c).

Wages and security-related spending remain high, crowding out space for development activities. Somalia's wage bill has significantly increased from 1.29% of GDP in 2013 to almost 6% in 2021. Similarly, while the wage bill reduced from 50% of public expenditure in 2021 to 38% in 2024, it continues to dominate spending. Although the wage bill-to-GDP ratio (2.8%) aligns with that of peer countries, Somalia's public sector wage bill as a share of public expenditures is almost twice as high as that of all its peer countries (World Bank, 2024b). The high wage bill is crowding out fiscal space for development activities, and a significant portion of it is externally financed, posing important fiscal sustainability risks (World Bank, 2024b).

Somalia remains at moderate risk of debt distress. Even though Somalia has achieved debt relief, it still has USD 766 million in outstanding debt, which must be managed carefully. A gradual reduction in external grants is expected after the IDA20 cycle ends in June 2025, when the country transitions to post-HIPC status and gains access to concessional borrowing (World Bank 2024b, 2025a). After this period, Somalia will be able to access new concessional loans. Unlike grants, which do not require repayment, concessional loans do. The Somali government will consequently need to navigate critical

¹⁶ MIS systems are used for automating financial operations like budgeting, treasury functions, payroll, tax collection, and financial reporting, improving transparency, efficiency, and accountability in public finances.

¹⁷ Difference between original approved budget and end-of-year outturn.

¹⁸ Most FMSs were using a separate MIS system called BISAN.

policy choices and balance budgetary and expenditure decisions against reductions in external grant financing and increases in access to concessional financing.

Moreover, while concessionary loans will open up opportunities for greater developmental financing, Somalia will also need to strengthen its institutional and legal framework to manage such financing. In particular, the government will need to strengthen the legal framework for debt management, institutionalise the functions of the Debt Management Unit (DMU), and build capacity for managing fiscal risks, including from contingent liabilities (World Bank, 2025c).

Additionally, Somalia will also need to refrain from non-concessional external borrowing and prioritise concessional financing sources. The experience of ex-HIPC countries suggests a greater risk that they will take on non-concessional loans (especially from private and bilateral creditors). Although the lending terms associated with borrowing from private or bilateral creditors may be more reasonable, they may not be cheaper in the long run, especially in terms of maturity timelines and interest rates offered, compared to concessional financing (Ferry & Raffinot, 2019).

To this end, an inaugural Medium-term Debt Management Strategy (MTDS) is scheduled for publication by the end of 2025, which highlights the critical need to keep Somalia's external borrowing highly concessional. An Annual Borrowing Plan (ABP) is also scheduled to be released for 2026, which includes an expected EUR 40 million concessional financing package from the European Investment Bank (EIB) (including grants of EUR 15 million from the EU), to be on-lent to the Somali Development and Reconstruction Bank (SDRB) to support SMEs in underserved sectors (International Monetary Fund, 2025a).

3.3 Ongoing reform efforts

Several reform efforts are currently ongoing to improve the PFM capacity of the federal and state governments.

Efforts to improve budget reliability: In this tight fiscal environment, efforts are being made to improve the central budget and cash management functions (World Bank, 2022c). Emphasis is also being placed on preparing budgets based on accurate revenue modelling data. These efforts are supported by programmes such as SERP and PREMIS2 (see below for more details). The PREMIS2 programme, for instance, supported FMSs in developing a new revenue model to underpin budget estimates and in developing Budget Framework Papers (BFPs). Additionally, the PFM Act has standardised the budget reporting process and defined a clear budgetary calendar. Consequently, at both the federal and state levels, emphasis is being placed on following the budget calendar and publishing all required documents within the statutory deadline (FCDO, 2025).

Strengthening budget preparation that is climate and gender-informed. Efforts are being undertaken to ensure that budget preparation processes address gender gaps and the growing climate-specific needs. SERP, for instance, is supporting the enhancement of a Medium-Term Fiscal Framework that is underpinned by considerations on climate adaptation and climate risk mitigation activities, and linking these to reliable revenue forecasting and other key budget preparation processes (World Bank, 2022b). While institutional mechanisms, primarily to support climate-informed budgeting and climate-smart public investment management, have yet to be established, the country has established a National Climate Change Committee (NCCC). The NCCC has the mandate for coordinating and supervising the implementation of climate change policy (World Bank, 2022b).

Commitment to budget transparency: The Ministry of Finance (MoF) has made political commitments and operational progress towards improving budget transparency since the first Open Budget Survey (OBS) was published in 2017. Somalia's OBS ranking and score are among the lowest in the latest OBS report (International Budget Partnership, 2023). According to the survey, there is no public participation in fiscal activities, and there are significant weaknesses in budget oversight and fiscal transparency. Along with publication of the Citizen's budget, reform measures are being undertaken on: (i) the preparation and publication of budget strategy papers, which lay out the medium-

term fiscal outlook¹⁹ and priorities and are presented to the cabinets of Ministers ahead of the executive budget; (ii) the preparation of a mid-year budget analysis by the FGS; (iii) the improved timeliness of in-year budget execution reports (World Bank, 2022c). Additionally, under the PREMIS2 programme, for the first time, citizens' engagement workshops were organised with the Ministry of Finance (MoFs) (FCDO, 2025).

Harmonisation of reporting practices to obtain a consolidated picture of the fiscal position of the country. FGS and FMSs have been moving towards harmonising their charts of accounts in line with the recently published Chart of Accounts Manual. Common reporting formats are being used, and the consolidation of fiscal reports is underway. However, existing processes of consolidated fiscal reporting continue to be manual, owing to the limited interoperability between the multiple MIS systems (IFMIS and BISAN) (World Bank, 2022b). However, in 2025, it was agreed that the IFMIS (Integrated Financial Management System) system would be adopted across the federation as the sole MIS system. The country-wide adoption of the IFMIS system is expected to automate the process and to allow for harmonised coding and a consolidated reporting structure (FCDO, 2025).

Progress in automating DRM and Human Resource Management (HRM) systems. The taxpayer registry was on paper until 2019, when it was linked to the FMIS in FGS. A longer-term solution, an Integrated Tax Administration Automation System (ITAS), is also underway (World Bank, 2022c). However, integration of the two systems remains pending.

Reforms to improve debt management. The FGS is working to strengthen the legal framework for debt management, institutionalise the functions of the Debt Management Unit (DMU), and build capacity for managing fiscal risks, including from contingent liabilities (World Bank, 2024b).

Incremental shifts toward social and economic expenditure are being realised through increased external grants. Repeated adverse climatic shocks and the lingering effects of the pandemic continued to drive increases in social spending to cushion vulnerable households. Social expenditures, mainly comprising cash transfers under the Baxnaano social safety program, accounted for 17% of total spending in 2023, compared with just 6% in the pre-COVID-19 level. External donor support in public works, water, and agriculture accounted for the increased expenditures in economic services, which reached 10% of total spending in 2023, up from 7.8% in 2022 (World Bank, 2023).

3.4 External support to strengthening the PFM

The major donor programmes supporting the PFM reforms include RCRF-3, SERP, IMF-SCF, and PREMIS2.

WB, RCRF-3 programme has been mainly working to improve budget transparency and ensure that the budget documents are prepared and published in a timely manner, at the FGS level (World Bank, 2025b).

WB, SERP: The SERP programme focuses on strengthening PFM systems and processes across the federation through five subcomponents: creating an enabling environment for effective service delivery, improving budget preparation and transparency, facilitating harmonisation and establishing a coherent and well-coordinated PFM system across the federation, and strengthening climate-informed public investment management (World Bank, 2022b).

IMF, SCF: This programme also supports capacity-development and aims to improve public expenditure efficiency and governance. Key areas for capacity development include strengthening the preparation and execution of a credible, transparent budget; improving fiscal reporting; developing the PFM legal framework; and leveraging digitalisation to enhance PFM processes and fiscal transparency. Support has also been expanded also to cover debt management and public investment management. Since 2024, the program has also supported the post-HIPC context by assisting the authorities in managing the government wage bill, initially focusing on the Pay and Grade policy and pension reform.

¹⁹ The current versions of the BSPs do not include medium-term fiscal outlooks.

Lastly, the programme also supports, the compilation and dissemination of macroeconomic and financial statistics, including national accounts, consumer price index, government finance statistics, external sector statistics, and monetary and financial statistics (International Monetary Fund, 2025b).

FCDO, PREMIS2: This programme, which concludes at the end of 2025, has been supporting the harmonisation and the strengthening of PFM capacity at the federal and state levels. To achieve this objective, the programme has been facilitating intergovernmental fiscal relations and fiscal decentralisation, investing in improving the reliability of budgets and developing capacity for economic and fiscal analysis, providing training for the effective use of core PFM systems, facilitating accurate financial reporting and strengthening interoperability of FGS and FMS financial systems (FCDO, 2025).

3.5 Qualitative assessments

Overall, Somalia’s PFM framework is low as the country scores D on most relevant indicators. The fiscal balance and macroeconomic stability have been improving in recent years. However, growth driven by agriculture and livestock is insufficient to reduce the high poverty rate. While Somalia has achieved debt relief, its external dependence, combined with low levels of domestic revenue mobilisation, leaves the country at risk of debt distress.

The financial systems and capacity, while improving, remain relatively weak. The reliability and credibility of the budgetary process have been a persistent concern, with wide variances between the original budget and the actual expenditures. Further, while efforts are underway to improve revenue models, robust modelling remains a challenge across the federation. Attempts have also been made to improve the transparency of budgeting processes, with reforms aimed at publishing the citizens' budget, preparing a mid-year budget analysis by the FGS, and improving the timeliness of in-year budget execution reports. However, many of these reforms have yet to be enacted.

The foundational elements of fiscal reporting have been established but remain disjointed. FGS and FMS prepare quarterly budget execution reports in a timely manner and publish them on the websites. Additionally, the FGS and FMSs prepare regular, in-year consolidated fiscal reports. However, harmonisation of financial reporting systems has been a concern across the federation. As a result, the convergence of systems is limited, information exchange does not occur, and consolidated reports that could enable informed decision-making on DRM, PFM, and Public Sector Management (PSM) are not prepared.

There have also been incremental improvements in development and social spending; however, most of this spending has been funded through external grants, as wages and security expenses continue to constitute a significant share of public expenditure. Given the high levels of gender inequality, there has been a shift towards gender-informed budgeting. Similarly, although institutional mechanisms, particularly those supporting climate-informed budgeting and climate-smart public investment management, have yet to be established, there is a mechanism in place to enable coordination among national government agencies on climate strategy and policy.

The external support for PFM has been fairly adequate in recent years, with three initiatives running in parallel. These initiatives have collectively supported budget processes, financial reporting, fiscal harmonisation, and macroeconomic modelling. However, the RCRF-3 and PREMIS 2 programmes are drawing to a close in 2025. While the SERP and IMF programmes will take over some of the support for PREMIS 2 and RCRF-3, it is unclear at the time of writing whether they will be able to absorb and support all of the ongoing initiatives.

Table 4. Assessment summary: PFM

Assessment Area	Explanation	Qualitative Rating
Fiscal Balance and Macroeconomic Stability	Growth is improving, but the economy remains vulnerable to economic shocks and dependent on external financing.	D+

Public Debt Sustainability	Debt relief has reduced the debt burden, but reliance on external financing leaves Somalia at risk of debt distress.	C
Revenue Forecasting and Budget Credibility	Improving, but revenue modelling and macro-economic analysis remain nascent.	C
Budget Transparency and Accountability	The transparency of the budget and citizenship engagement, although improving, remains a concern.	D
Fiscal spending	Prioritisation of wages and security expenses rather than development, gender and climate-related spending.	D
Financial reporting	The basic elements are in place, but they are not integrated and harmonised.	D+
Fiscal Harmonisation	Harmonisation of PFM systems and processes remains a concern.	D
External Support	There are four main donor programmes, but two are coming to an end in 2025.	C

4. Statistical Capacity

Improved statistical capacity is a key component for strengthening policymaking. Norad’s portfolio strategy highlights the importance of improved data systems for better decision-making and resource targeting, as credible and timely data are indispensable for tax policy (DRM), budget forecasting (PFM), and corruption monitoring (ACA). This section assesses the current state and institutional capacity of Somalia’s statistical system. It also examines ongoing reform efforts and external support, identifying areas for further improvement.

4.1 Capacity of statistical offices

Somalia is rebuilding its statistical capacity after a nearly 40-year gap. The Ministry of Planning, Investment, and Economic Development (MoPIED) initiated the process of re-establishing the Statistics office. A new statistics law was passed on February 24, 2020, and a new, independent institution, the Somali National Bureau of Statistics (SNBS), was tasked with implementing it. The SNBS is mandated to collect, analyse and disseminate official statistics in Somalia. It is responsible for compiling administrative data, conducting surveys and coordinating and approving all statistical activities in addition to publishing accurate, timely and reliable statistical information (SNBS, 2021).

The SNBS is governed by a Board of Directors and a Director General, both of whom are endorsed by the Cabinet and appointed by the President of the Federal Government of Somalia. The Board of Directors is the highest policy-making body of the SNBS, responsible for formulating policies and setting internal regulations, priorities, standards, and criteria for all censuses and surveys conducted in Somalia.

SNBS maintains independence in its operation, management, and publication of impartial statistical information. It also has appropriate office space (new building with 40 offices and two leading conferences), a minimum qualified staff (38 civil servants and 34 technical assistants), office equipment and furniture enough to sustain the current level of staffing (SNBS, 2021).

The processing and storage of data are governed by the Data Protection Act (2023). The Act establishes general principles and the legal bases for the processing of personal data, including valid consent from the data subject, contractual necessity, and legal necessity. The act has created a new independent authority called the Data Protection Authority to protect personal data privacy and ensure that all organisations comply with the Data Protection Act (Law No. 005 enacted in March 2023) (DPA, 2025).

Despite these changes, several concerns remain regarding the rebuilding of statistical capacity.

- **SNBS’s annual budget set aside by the Federal Government is minimal compared to its mandate,** what it is expected to achieve and the level of funds at its disposal. Due to budget constraints, SNBS is unable to attract the desired level of technical and qualified staff. In

addition, the SNBS needs hi-tech IT systems, tools, and applications, which require additional funding (SNBS, 2021).

- **There is a shortage of statistical data**, including data related to macro-economic indicators, social indicators and tax and PFM-related information. The destruction of most of the country's statistical capacity following state collapse has meant that for thirty-plus years, there has been virtually no public data collection. For instance, the first population estimate post-1991 was collected in 2014 by the United Nations Population Fund. While there is currently greater availability of basic data, there continue to be significant gaps in terms of scope and coverage (e.g. there is limited availability of robust GDP estimates as most of the economy operates in the informal sector), and routine collection of data is still an issue (Wasuge et al., 2021).
- **Limited statistical capacity of SNBS and government ministries**. Until recently, most data collection was done by donors, international organisations, and agencies. Government ministries, such as the Ministry of Planning and the SNBS, have begun collecting some data; however, due to their limited capacity, they often rely on international partners for support. For instance, data for the Somali Integrated Household Budget Survey (SIHBS), a household expenditures and consumption survey, was collected by the World Bank in partnership with the SNBS. Similarly, the first poverty estimate survey was conducted by the World Bank in partnership with the Ministry of Planning (Wasuge et al., 2021).
- **Privatisation of statistical data**. Since most of the data was, until recently, collected by international actors, much of the knowledge and data production has been de facto privatised. Even when Somali government ministries are involved in data collection, international organisations often retain control of the major databases and repositories. In recent years, Somali officials have accused international organisations of refusing to hand over existing data to the government. The FGS is currently in the process of (re-)claiming some of the major databases and repositories from UN agencies (Wasuge et al., 2021).

4.2 Mechanisms for data sharing

SNBS coordinates the compilation, analysis, and dissemination of all Statistical data. In principle, both internal ministries, agencies, and departments, as well as external organisations, are supposed to share information with SNBS. Additionally, several ministries rely on data compiled and collated by the SNBS.

Building coordination between the federal and state governments has been a challenge. SNBS is expected to work closely with other State agencies, both at the Federal Government and Federal Member States levels, to coordinate all statistical activities throughout the country. However, there is no harmonised way of collecting administrative information and coordination within the Federal Government and the Federal Member States (SNBS, 2021).

Limited coordination with external data collection institutions. Externally, several external institutions are identified as producing data and statistical information without the control and consent of the Federal Republic of Somalia's specialised agencies. These include private-sector businesses, research institutions, civil society organisations, multilateral and international organisations, UN agencies, and other international institutions. Many of these agencies have their own archiving and disposal policies and often do not share the data collected with the Ministries and SNBS. When information is shared, it is not done in a coordinated or durable manner (Wasuge et al., 2021).

Limited sharing and use of statistical data by ministries. Several ministries, including finance, agriculture, and planning, base their decisions, plans, and actions on publications, data, and analysis. However, due to poor data collection coordination, updated data estimates are often unavailable. For example, the Ministry of Finance is often unable to produce accurate budget estimates due to limited access to updated economic indicators. Additionally, the proliferation of agencies involved in data collection – both internal and external also implies that multiple data sets may be produced, capturing

different information and analysis that are not in concordance, making it difficult for ministries to take coordinated decisions (World Bank, 2022b).

4.3 Coordination and ongoing reform efforts

The strategic plan documents set out a roadmap to make SNBS a Centre of Excellence for Statistics and Knowledge in Somalia. The plan identifies five strategic goals including: establishing effective coordination mechanisms for internal producers, users, and external actors, strengthening institutional frameworks and systems, strengthening institutional frameworks and systems (legal, infrastructure, equipment, human and financial resources), adopting standard tools and methodologies for data production, collection and analysis, publishing trusted and timely demographic and socioeconomic statistics, and establishing the Institute of Statistics and Applied Economics (SNBS, 2021).

Over the past year, several efforts have been undertaken to build capacity. A major highlight was a capacity-building workshop on the Multidimensional Poverty Index in Nairobi, where Somali government officials gained expertise in measuring and addressing poverty using the Alkire-Foster method. A range of advanced technical training sessions and workshops further bolstered SNBS's capabilities in data dissemination, statistical analysis, and IT infrastructure development (SNBS, 2024b).

Coordination mechanisms have also been established. Internally, the SNBS (Directorate of Administration) also played a pivotal role in facilitating the government audit for fiscal year 2023 by providing the necessary documentation, thereby further enhancing accountability and external oversight. In terms of coordination with external agencies, a key achievement was collaboration with the FAO to develop the Somali Livestock Market Data and Information Management System (LMDMIS), which enhances the efficiency and transparency of livestock market data. Furthermore, with support from the Common Market for Eastern and Southern Africa (COMESA), the Food and Agriculture Organisation, and Statistics Norway, the Directorate of Production Statistics organised workshops to enhance staff capacity in food security data processing and analysis, leading to the production of the Food Security Fact Sheet (SNBS, 2024b).

4.4 External support for statistical systems

UN Resident Coordinators' Office, Joint Coordination Forum on Data and Statistics: The Joint Forum on Data and Statistics, which involves the participation and engagement of 70 stakeholders, including 11 UN Agencies and many Ministries. The primary objective of the Forum is to enhance coordination between development partners, government entities, and donors. By consolidating statistical efforts and streamlining data initiatives, the Forum aims to reduce duplication, optimise resource allocation, and ensure that data collection and analysis efforts are aligned with national priorities (SNBS, 2024a).

World Bank-MPF, Somali Integrated Statistics and Economic Capacity Building (SISECB) Project: The project aim is to strengthen the country's national statistics system, the monitoring and evaluation (M&E) system, and improve the programming and analytical capacity of the government's macroeconomics and fiscal programming agencies to enable them to regularly assess, analyse and improve their public policies and programs performance and results. More specifically, the project aims at: (1) Strengthening the national statistics system; (2) Strengthening monitoring and evaluation capacity; and (3) Building economic policy analysis and economic planning capacity. The project is funded jointly by the World Bank and other development partners²⁰. This programme is set to expire in August 2025 (World Bank, 2025a).

²⁰ <https://nbs.gov.so/projects/#>

4.5 Qualitative assessments

Overall, Somalia’s statistical capacity is low as the country scores D on most relevant indicators. Much of the country’s statistical capacity was destroyed during the thirty-plus years of conflict. The establishment of the SNBS represents a significant step in rebuilding the country’s statistical capacity. However, the effectiveness of the SNBS is undermined by weak coordination, capacity constraints, limited credibility, and inconsistency of data standards.

Building statistical integrity and institutional independence remains a critical reform priority. Legal frameworks for data sharing are lacking, and there are also considerable gaps in institutional linkages and data integration mechanisms, which remain underdeveloped. There are also weaknesses in harmonising systems and strengthening inter-agency collaboration, which are important for improving data accessibility and usability.

The Somalia strategic plan provides a starting point for developing a framework for implementing reforms. However, the plan could be made more robust, especially by clarifying the framework for coordinating data sharing between internal and external agencies. The success of the plan also hinges on political support, consistent implementation, and improved accountability mechanisms across all stakeholders, which have yet to be realised.

Data remains highly politicised in Somalia. Ministries continue to favour data collected by their own departments and rely less on data from SNBS and other agencies. This makes it challenging to build coordination mechanisms and has been a significant reason why such reforms have been particularly difficult. There is also the issue of data privatisation, as external partners have been unwilling to share data with SNBS and other government agencies due to the limited capacity of these agencies for data management and storage. Such practices risk undermining efforts to implement key reforms, such as the new Data Protection Law, and obstruct the development of national statistical capacity.

External partners have made contributions to the development of the statistical system, particularly through capacity-building and technical system reform. However, some of the key initiatives are expected to conclude later this year, and it is unclear whether follow-up programs will be implemented. Moreover, much of the support has been fragmented, and combined with the limited domestic ownership, this raises concerns about the long-term sustainability of the reform efforts.

Table 5. Assessment summary: Statistical Capacity

Assessment Area	Summary	Qualitative Rating
Independent Agency	Separate statistical agency has been established.	D+
Administration	Reform plan for implementing reforms.	C
Availability of DRM and PFM-related Data	Data is inconsistent and not readily available.	D
Quality and Consistency of Revenue Data	Data is inconsistent and not readily available.	D
Statistical and Econometric Capacity	The capacity is very low.	D
Independence and Credibility of Statistics	SNBS relies on external donor support for data collection and analysis.	D
Legal Framework for Data Sharing	Limited mechanisms for data sharing.	D
Coordination and Integration	The institutional coordination mechanism is missing.	D
External Support and Technical Assistance	One major programme has been providing capacity-building support, but is set to conclude.	C

5. Anti-Corruption

Anticorruption is a core outcome in the Norad portfolio strategy, which seeks to support countries in improving systems to prevent and prosecute corruption (ACA) and Illicit Financial Flows (IFF). Corruption within country systems is seen as undermining the legitimacy of public institutions, reducing

the effectiveness of public investments, efforts to mobilise revenues, and decreasing fiscal discipline and data reliability. This section assesses Somalia's anti-corruption landscape by examining the country's ranking in international indexes, citizens' perceptions, institutional capacity, and the effectiveness of ongoing reforms and external support. It presents an overall picture by identifying strengths and weaknesses in Somalia's anti-corruption architecture and coordination mechanisms.

5.1 ACA capacity in the country

Corruption is endemic in Somalia, which is often judged to be the most corrupt country in the world (Rahman, 2017). Since 2012, Somalia has consistently ranked at the bottom of Transparency International's Corruption Perception Index (CPI) and was the second most corrupt country, after South Sudan, in 2024 (Transparency International, 2025). While Somalia is not included in the AfroBarometer survey, reports by independent agencies have noted the widespread appropriation and siphoning of public money²¹ (Ahmad et al., 2022; Heritage Institute, 2021). During President Hassan Sheikh's first term, several financial irregularities emerged in the sale of fishing licenses and offshore oil blocks to private foreign companies (UN, 2015). In 2015, Somali lawmakers filed a motion to Parliament to dismiss President Hassan Sheikh, accusing him of abuse of office. The motion ultimately failed, the allegations sullied the government's reputation and became a reason for the President's defeat. Similarly, during President Farmajo's tenure, reports also emerged of 'inconsistencies' in how concessions were awarded to manage infrastructure assets and deliver government services (Majid et al., 2021).

Illicit financial flows (IFFs) in Somalia are a significant threat to its economy and security. AS, through its network of dozens of road checkpoints, levies on imports into Mogadishu and the direct extortion of Somali businesses, has been able to generate upwards of USD 100 million annually. These illicit funds are reinvested into legitimate businesses for money laundering or used to finance further criminal and terrorist activities. (GI-TOC, 2025).

Somalia has introduced several measures and policies to curtail corruption in the public sector. These include,

- **Establishing a National Integrity Coordination Department (ICD)** under the Ministry of Justice. The aim of the department is to a) serve as the Government's policy arm in the fight against corruption by developing and reviewing anti-corruption laws, policies, and strategies, b) support public sector institutions in the development, implementation, and monitoring sector and institution-specific anti-corruption plans; and c) serve to mainstream ethical values and standards across public institutions through education, training, and capacity building (Hassan, n.d.).
- **Initiation of a National Anti-Corruption Strategy (NACS).** To address the problems associated with the endemic state of corruption, the government initiated a National Anti-Corruption Strategy (NACS) and reform agenda. This initiative focuses on systems and institutions, building a culture that prioritises integrity and accountability in government operations, and addressing corruption at every level.
- **Accession to the United Nations Convention Against Corruption (UNCAC).** In 2021, Somalia became the 188th State Party to the UNCAC and is preparing the ground to undertake the multi-staged comprehensive Implementation Review Mechanism ('IRM') that states take to track the implementation of the UNCAC (Hassan, n.d.).
- **The establishment of an Independent Anti-Corruption Commission (IACC)** was created through an Act of Parliament signed into law on 21 September 2019. The IACC elected its commissioners on 4 May 2021. The powers of the Anti-Corruption Commission include: a) prevention, investigation, and publication of corruption allegations, b) freezing, seizing and confiscating any gains from criminal activity, and c) supporting the adoption of such laws and

²¹ These figures were disputed by the Finance Ministry, which pointed out that what the AG reported as a corrupt offshore banking was a "corresponding international bank account which the government used for donor grants". However, these reports do not belie the scale and nature of the corruption-related challenges.

measures necessary to prevent and prosecute criminal offences relating to corruption effectively (Hassan, n.d.).

- **Passing of the Procurement Act to provide a clearer and more transparent basis for public sector contracting.** The 2016 Procurement Act applies to public procurement of goods, works, and services, as well as concessions for the use or development of a public asset. It makes open competition the default method for all procurement by the FGS. It establishes a decentralised approach to public procurement and a partially decentralised approach to concessions, but institutional capacity for implementation remains low. Security sector rations and fuel contracts have been competitively tendered for three successive rounds, with demonstrated gains in value for money. The FGS has yet to implement competitive tendering for concessions (FGC, 2023). Contracts continue to be awarded on a sole-source basis, despite the significant risks for transparency and value for money.
- **Public audit capacity has improved considerably.** The Office of the Auditor General (OAG) has undertaken and published annual audits of the FGS financial statements. The audit findings have helped to drive iterative improvements in the quality and comprehensiveness of the FGS annual financial statements. Compliance audits of selected FGS institutions have effectively identified weaknesses in financial governance practices, including off-budget revenues and non-compliance with procurement procedures, and have provided recommendations for remedial action. Special audits by the OAG have also revealed the risks posed by external financing that bypasses government systems. Revisions to the legal framework for audit have strengthened the independence of the Auditor General from the executive (FGC, 2023).
- **The Somali financial sector has introduced reforms to curb illicit financial flows (IFFs).** In 2016, Somalia passed the AML/CFT Act and established the National Anti-Money Laundering and Countering the Financing of Terrorism Committee (NAMLC) to provide policy guidance and set the strategies of Somalia's AML/CFT regime. For the first time in Somalia, this law criminalises money laundering and the financing of terrorism. The country has also created a Financial Reporting Centre (FRC) to receive suspicious transaction reports. In April 2024, Somalia took a significant step under the newly enacted Targeted Financial Sanctions Act of 2023 by sanctioning an initial nine individuals suspected of financing terrorism (NAMLC, 2021).

5.2 Ongoing coordination and reform efforts

Bridging procurement capacity is a significant constraint to the full implementation of the Procurement Act. Most FGS institutions do not currently meet the Act's requirements for certification as a procuring entity. To address some of the immediate challenges to implementing the Act, the Council of Ministers issued the Interim Procurement Regulations (IPRs) in March 2018. The IPRs notified FGS institutions of their responsibility to conduct procurement in accordance with the Procurement Act and required them to seek support from the MoF Procurement Department when conducting public procurement transactions with a value above USD 100,000 (FGC, 2023).

Internal and external audit reforms are needed to improve oversight and accountability. The internal audit function has been established and strengthened by developing audit charters and manuals. They are also moving toward implementing the International Standards for Supreme Audit Institutions (ISSAIs) to improve audit quality. However, delays in conducting audits and implementing audit recommendations remain ongoing concerns. At the FMS level, the audit function is also operational, though the follow-up processes are not being fully practised. Substantial further efforts will be required to implement the internal audit charters and manuals and to strengthen management capacity to follow up on and implement audit recommendations (World Bank, 2022c). An institutionalised process for the interaction and sharing of audit information between the various levels of government, including the Federal Auditor General and State Auditor Generals, is also pending (World Bank, 2022b).

Better coordination is needed to ensure that external donors effectively utilise country systems. The compliance audits have identified numerous instances in which FGS institutions receive funding from external partners outside of the country systems. This funding is not appropriated in the annual budget and is disbursed to unauthorised accounts held outside the TSA. It is not subject to FGS budget

execution procedures. International partners initially justified this practice on the premise that FGS systems were too weak to be trusted. Now that these core systems have been established and embedded, bodies like the FGC have been advocating for continued funding to the FGS in a way that avoids using country systems, which risks undermining those systems (FGC, 2023).

Implementation of IFF reforms remains a concern and needs to be strengthened. A recent report by the Global Initiative Against Transnational Organised Crime (GI-TOC, 2025) finds that while the director general of Somalia's FRC stated that major Somali financial institutions, including banks and money transfer companies, were compliant with regulations set by the FRC and the CBS under the AML/CFT law of 2016, their research suggests otherwise. Very few suspicious transaction reports are being filed by these institutions, particularly the major ones²². Moreover, there is a severe lack of public financial literacy concerning illicit finance, further complicating compliance efforts. Additionally, mobile money providers have consistently failed to adhere to AML/CFT laws. In February 2023, the NAMLC issued a directive to various reporting entities, including mobile money providers, thereby ending a grace period. However, well over a year later, despite multiple meetings and engagements, the NAMLC is still seeking ways to ensure compliance with its directives in accordance with national AML/CFT laws and regulations. The Financial Reporting Centre (FRC) and the Central Bank of Somalia (CBS) have also struggled to enforce compliance effectively, particularly among designated non-financial businesses and professions (DNFBPs) such as real estate agents, notaries, and lawyers.

5.3 External support to strengthening ACA

WB-MPF, Financial Governance Committee: The Financial Governance Committee (FGC) was established in 2014 by mutual agreement among the FGS, donors, and international financial institutions to serve as a forum for dialogue on strategic governance issues. By its composition, the FGC is a hybrid Somali-international body expected to meet every 4 to 6 weeks. The objective of the FGC is to improve financial governance in Somalia, as a foundation for overall good governance, economic development, and political stability. It enables the FGS to obtain independent and transparent international advice on policy and implementation modalities in key areas of financial governance. The FGC is financially supported by the World Bank-administered Multi-Partner Fund (MPF, which, along with eight other donors, has contributed funds to the MPF (FGC, 2023).

Norway through the Embassy provides support through Intosai's International Development Committee to the Office of the Auditor General of Somalia. The current phase runs from 2021 to 2025. The project focuses on strengthening the Auditor General's Office (OAG) by focusing on supporting the goals included in the Auditor General's strategic plan: publication of high audit quality reports, internal governance, external communication, HR management, infrastructure and ICT capacity and amending the legal framework for the OAG²³. For example, the project supported the completion of financial audits for fiscal year 2023, which were submitted to Parliament by June 30, 2024, meeting the deadlines for two consecutive years. The audits have been submitted to Parliament and published online. The financial audit findings have helped to drive iterative improvements in the quality and comprehensiveness of the FGS's annual financial statements. They have also helped identify areas in which treasury procedures require strengthening (Norad, 2024).

5.4 Qualitative assessments

Somalia's consistently low international rankings suggest that corruption is a persisting and pervasive problem, as the country scores a D on most relevant indicators. In grappling with the challenge, several initiatives have been undertaken, including the establishment of an independent Anti-Corruption Commission (IACC) and the development of a National Anti-Corruption Strategy (NACS), to address the problems associated with the endemic state of corruption. Additionally, a new legal framework has been adopted to provide a clearer and more transparent basis for public sector procurement. The FGS

²² Since 2020 the number of suspicious transaction reports (STRs) the FRC has received from Somali financial institutions has been negligible.

²³ <https://resultater.norad.no/avtale/SOM-20/0008>

has taken steps to resolve several flawed contracts signed prior to 2016. Further, the OAG's audit and oversight capacity is being strengthened.

Despite these efforts, structural challenges remain. In particular, while audit capacity is increasing, procurement irregularities and financial mismanagement indicate limited accountability and enforcement. Stronger follow-up mechanisms and sanctions are needed. Integrity levels are also improving incrementally. However, gains are fragile and require reinforcement through leadership accountability and institutionalised processes for the interaction and sharing of audit information among various levels of government.

Moreover, although many government contracts have been renegotiated, they continue to be awarded on a sole-source basis rather than through a competitive tendering process. Most FGS institutions also do not currently meet the Act's requirements for certification as a procuring entity. Moreover, external donors continue to utilise external systems, undermining the legitimacy of country systems.

Furthermore, while key legislation and policy institutions have been established to curb IFF, implementation remains a challenge and needs to be strengthened. Major Somali financial institutions, including banks and money transfer companies, have filed very few suspicious cases with the FRC. Mobile money providers have consistently failed to adhere to AML/CFT laws. Lastly, there is a severe lack of public financial literacy concerning illicit finance, further complicating compliance efforts.

Table 6. Assessment summary: ACA

Assessment Area	Summary	Qualitative Rating
Legal and Strategic Framework	Several initiatives have been undertaken, including the establishment of an independent Anti-Corruption Commission.	D+
Institutional Capacity	The capacity of the existing institutions is still relatively nascent, and the extent of implementation remains unclear.	D
Enforcement and Prosecution Effectiveness	Procurement irregularities and financial mismanagement indicate limited accountability and enforcement.	D
Procurement Oversight and Compliance	Additionally, a new legal framework has been adopted to provide a clearer and more transparent basis for public sector procurement.	D+
Citizens' Perceptions and Reporting Safety	Corruption is one of the biggest concerns. Somalia ranks low in the corruption index.	D
Coordination Across Institutions and Planning	Limited coordination, especially on procurement and audit functions.	D
Independence of Oversight Institutions	Independence of OAG is being strengthened.	D+
Illicit Financial Flows	Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) legislation was enacted, and related bodies were established to set policy and coordinate initiatives. However, the implementation of reforms is limited.	D
External Partner Support	External donor support is limited, with risk of stagnation or regression if donor funding is further reduced.	D

6. Political Economy Considerations

The above assessment highlights that several intervention priorities remain pertinent; however, when designing additional strategies, it is essential to consider the political economy factors and identify the obstacles to reform and the levers of change. In the following section, we discuss the obstacles to reforms and a few levers of change.

6.1 Obstacles

Tensions between FGS and FMS. The ongoing tensions between the FGS and the FMSs, particularly JSS and PSS, risk derailing some of the progress made in fiscal harmonisation. These tensions need to be considered when designing future DRM programmes. Specifically, the limited clarity on the fiscal federalism framework has led to multiple tax systems, tax competition and significant vertical gaps in own-source revenues within the federation. PSS, specifically, has withdrawn from many of the ongoing reform initiatives, including the National Consultative Council and the Baidoa Agreement. Without the involvement of Puntland's government—and its higher revenues—realisation of the agreement remains elusive (Somali Dialogue Platform, 2025). The failure to create the National Revenue Authority (NRA), as required by the constitution to facilitate fiscal cooperation, has further contributed to the lack of trust and coordination in revenue matters (Somali Dialogue Platform, 2025). These tensions have also made PFM reforms more challenging. As previously discussed, persistent issues have made it difficult to ensure consistent, consolidated financial reporting. The integration of existing HRM and financial systems has also been a challenge due to a lack of harmonisation.

Competition from Informal actors. Informal institutions like kinship and religious institutions have traditionally played an important role in governance, public service and social welfare provision (Marchal, 1996; Mubarak, 1997). However, these institutions became even more critical once the state collapsed and alternate forms of order and authority were needed (Menkhaus, 2007). Despite the institution of formal government, the role and legitimacy of these institutions have not diminished, and they continue to perform critical governance functions and provide key public services (van den Boogaard & Santoro, 2021). While in many cases these institutions fill critical governance gaps, the taxes they levy to fund their activities may compete with formal taxes and create multiple tax burdens. However, recent research suggests there may also be opportunities for hybrid tax collection arrangements to improve DRM, where local leaders who have greater information legitimacy are also involved in the collection of formal taxes (van den Boogaard & Santoro, 2021).

Threat from Al Shabbab. Competition between the Somali authorities and AS has constrained the Somali state's enforcement capacity and limited its authority to collect taxes across large swathes of the country currently under AS control. The parallel system of taxes has also contributed significantly to the tax burden of Somali taxpayers, who are forced to pay taxes to two separate authorities (World Bank, 2024d). These dynamics have implications for DRM as the existence of multiple taxes risks lowering taxpayer incentives and compliance. Additionally, the threat posed by AS also affects the government's expenditure priorities. Consequently, the government has not been able to reduce security sector spending or reprioritise expenditure to meet developmental priorities. Lastly, the IFFs and AS's money laundering represents a considerable challenge for the country's ability to tackle corruption and adhere to AML/CFT standards (GI-TOC, 2025).

Political settlement context risks undermining reforms. The broader political settlement context also presents challenges for reform initiatives, especially those related to DRM, PFM, and anti-corruption programmes. The legacies of colonialism and conflict have shaped the distribution of power and defined the nature of institutions. The political settlement in Somalia is characterised as a settlement in crisis, where power is not aligned with formal institutions, but rather it is informal patron-client relations which offer benefits and rent-seeking opportunities to powerful actors (Menkhaus, 2018). These dynamics have made it more difficult to raise taxes from actors like business elites, who have been implicated in patron-client relations with political actors (Boogaard & Isak, 2025; de Waal, 2018; Majid et al., 2021). At the same time, because the business community plays a central role in the economy and exercises considerable control over financial and banking institutions, the federal state has been unwilling to extend or deepen corporate taxation (Boogaard & Isak, 2025; Chonka et al., 2025). Additionally, the use of informal systems and processes, as well as the diversion of public funds, presents challenges for PFM and anti-corruption efforts.

The role of regional actors has been mixed. In the past, regional players have supported Somali peace-building efforts. Neighbours such as Ethiopia, Kenya, Uganda, and Burundi have played a leading role in AMISOM and consequently have been integral to maintaining the FGS's authority. Turkey has also invested significant sums in infrastructure, humanitarian aid, and commercial projects to secure a

political ally and expand business opportunities for Turkish interests. However, regional actors have also been driven by national agendas. Ethiopia had exercised considerable veto power in Somali politics, primarily influenced by its self-defined security concerns. Following the 2017 Gulf crisis (between Saudi Arabia and Qatar), Somalia became a proxy battleground for strategic rivalries, which deepened Federal-FMS antagonisms and threatened the stability of the fragile settlement (Webersik et al., 2018).

6.2 Drivers of change

Commitment by groups of political elites towards reforms. Reformers at the federal and state levels have backed macroeconomic reforms and lent their considerable support to ensuring that Somalia meets the HIPC benchmarks. As a result of these efforts, several changes have been introduced, including the implementation of the SOMCAS system, the Financial Management Information System, the transfer of certain fees from specific Ministries to the Ministry of Finance, and the creation of a specialised office to manage the taxation of large and medium taxpayers. These reforms have also emerged alongside efforts to increase reciprocal service delivery (Boogaard & Isak, 2025). The FGS has demonstrated a commitment to delivering tangible services through hybrid financing models that it can point to as the foundation of a fiscal contract with taxpayers. For instance, it has partnered with the Mogadishu municipality and donors to invest in several large infrastructure projects, including four national hospitals, with the federal government committing a certain percentage of the funds (Boogaard & Isak, 2025).

Long-standing commitment of donors. The recent reforms have been made possible with the support of international development partners, who have been instrumental in pressuring political elites to take steps toward reform. Particularly given the limited capacity within the Ministry of Finance, development partners have played a significant role in pushing reforms, building internal capacity, and prioritising fiscal decentralisation, public service delivery, and accountability (World Bank, 2015).²⁴ Multilateral and bilateral donors have, as previously argued, been working closely with the OAG, SNBS and Anti-corruption bodies at both the federal and state levels.

Private entrepreneurs have invested in creating new growth opportunities. Despite its high dependence on agriculture, the service industry, telecommunications, banking, and remittances have been rapidly expanding, presenting new opportunities for growth and diversification. In particular, Somalia has been at the forefront of the mobile money and telecommunications revolution. It has one of the most affordable calling rates, is the seventh cheapest country in the world for mobile data, and is a leader in mobile money transactions, with 90% of households having access to mobile money. (Chonka et al., 2025; Iazzolino & Stremlau, 2023; Sahgal, 2025). While private sector actors have historically expressed a more ambivalent attitude towards an expansion of state authority, they have been cooperating more recently in supporting the state in raising revenues (Sahgal, 2025). However, industry attitudes remain tentative. Thus, while there are opportunities to strengthen cooperation among private actors, these relationships need to be carefully managed.

²⁴ This is in line with research that shows that aid can raise tax revenues where it strengthens revenue administration or supports tax policy reform (see e.g., Chami et al., 2021; Crivelli & Gupta, 2017; Diaz-Sanchez et al., 2021; Mascagni & Timmis, 2017; Morrissey & Torrance, 2015; Ndikumana, 2016).

Annex 1 Methodological Note: The A–D Assessment Scale

The report applies a four-point **A–D qualitative assessment scale** to evaluate each of the four case countries’ governance performance across four thematic areas: Domestic Resource Mobilisation (DRM), Public Financial Management (PFM), Statistical Capacity, and Anti-Corruption. The purpose of the scale is to provide a **simple, transparent, and repeatable** method for assessing institutional strength, reform momentum, and vulnerability to political economy constraints. The scale is **inspired by** international diagnostic tools such as PEFA and TADAT but is **not a replication** of their scoring systems.

Purpose and Rationale of the Scale

The A–D scale serves four main methodological purposes:

1. **Comparability across sectors:** It provides a common language for assessing four governance areas that differ in mandates, institutional setups, and maturity levels.
2. **Analytical clarity:** It avoids false precision and recognises that governance performance cannot be reduced to exact numerical scores.
3. **Focus on reform dynamics:** The methodology captures both *current institutional performance* and *direction of change*, including momentum, sustainability, and political constraints.
4. **Repeatability over time:** The scale can be applied in future studies to track reform progress and setbacks.

What the Scale Measures

Each rating reflects a **holistic judgement** drawing on quantitative data, institutional diagnostics, political economy analysis, and expert assessment. It focuses on:

- **Institutional strength** (legal framework, systems, procedures, capacities, enforcement)
- **Operational performance** (execution, service delivery, compliance, audit follow-up)
- **Governance and independence** (autonomy, transparency, resistance to political interference)
- **Reform momentum** (ongoing reforms, donor alignment, leadership commitment)
- **Risks and vulnerabilities** (political cycles, fragmentation, implementation gaps)

The assessments are **area-level ratings**, not a compilation of indicator scores.

Definition of the Four Rating Categories

A – Strong

Institutions function reliably and largely in line with good international practice. Processes are clear and consistently applied. Political interference is limited, and reform momentum is strong and sustained. Performance is robust even under stress.

Used sparingly; denotes a high level of maturity.

B – Moderately Strong

Core systems are well established and generally effective, but performance varies across sub-areas. Reform momentum is present but implementation may be uneven or dependent on external support. Risks exist but do not fundamentally undermine system performance.

C – Moderately Adequate

Basic institutional elements are in place, and the system meets minimum functional requirements. However, weaknesses are significant—such as inconsistent implementation, coordination failures, limited independence, or slow reforms. Performance is vulnerable to political cycles and capacity constraints.

This category also captures systems with strong potential but weak implementation.

D – Weak

Key system elements are missing, non-functional, or severely constrained. Political interference, low capacity, or governance shortcomings undermine credibility and performance. Reform momentum is low, stalled, or purely formal.

Denotes structural problems rather than temporary setbacks.

Plus

To distinguish dimensions that are weak but are improving, we add a plus sign.

How Judgements Are Formed

Ratings are based on triangulation of:

- official statistics and administrative data;
- published assessments (CAG, PEFA, TADAT, IMF, WB, Afrobarometer);
- interviews and secondary literature;
- institutional and political economy analysis;
- evidence of reform progress or stagnation.

The rating process prioritises **narrative justification** over the letter grade itself. Each rating is accompanied by a concise explanation summarising the evidence and rationale.

Distinction from PEFA, TADAT, and Other Formal Diagnostics

While the A–D categories mirror the logic of international tools, this methodology differs in key ways:

- It is **not** a compliance audit.
- It does **not** score indicators or use weighted formulas.
- It incorporates **political economy**, which PEFA/TADAT do not.
- It allows **cross-sector comparison** across DRM, PFM, Statistics, and Anti-Corruption.
- It is designed for **portfolio monitoring**, not formal ratings of government performance.

Future Application

The scale is intended to be used in subsequent monitoring reports to:

- track changes in institutional performance;
- identify reform windows or emerging risks;
- inform Norad’s strategic engagement and portfolio adjustments;
- support dialogue with government and development partners.

The simplicity and transparency of the scale ensure that future assessments remain comparable even if conducted by different teams.

Annex 2 Summary of strengths, weaknesses and risks

Table 7. Summary of Strengths and Weaknesses

DRM	PFM	Statistics	ACA
<p>Strengths: Reforms have been implemented to strengthen tax administration and legal frameworks. Modernisation and harmonisation of customs taxes have been critical to increasing DRM.</p>	<p>Strengths: Although macro-economic indicators are improving, they remain low, and the economy remains dependent on external financing. The debt burden has decreased, but the risk of debt distress remains. Basic elements of fiscal reporting are in place.</p>	<p>Strengths: NBS was established as a separate and independent agency.</p>	<p>Strengths: Several initiatives have been undertaken, including the establishment of an independent Anti-Corruption Commission.</p>
<p>Adequacy: Partially adequate — recent revenue collection targets have been met or exceeded; structural weaknesses persist.</p>	<p>Adequacy: Moderately adequate — despite gaps, the revenue modelling is improving in terms of the credibility of the budgeting process.</p>	<p>Adequacy: Somalia's strategic plan provides a starting point for developing a framework for implementing reforms.</p>	<p>Adequacy: A new legal framework has been adopted to provide a clearer, more transparent basis for public-sector procurement.</p>
<p>Weaknesses: Low tax-to-GDP ratio; income tax collection is low, and the revenue base is limited, with a high reliance on customs taxes. Harmonising tax laws across the federation is a persistent concern, as is establishing coherent frameworks for excise policies, simplifying non-tax revenues and streamlining the process of tax exemptions.</p>	<p>Weaknesses: Budget transparency remains low, and the harmonisation of PFM reporting systems does not facilitate the consolidation of reporting.</p>	<p>Weaknesses: Low statistical capacity; inconsistent data quality across internal and external agencies; poor coordination and data sharing; limited analytical capacity in many MDAs; and insufficient data protection, independence, and credibility of statistics.</p>	<p>Weaknesses: High levels of corruption combine with low institutional capacity, weak enforcement, and poor coordination of anti-corruption mechanisms.</p>
<p>Potential vs. Risk: Significant potential for broadening the base and improving compliance—if reforms are pursued. However, the ongoing tensions between FGS and FMSs, the security threats posed by AS and the reduction in external financing constitute critical risks that may undermine the progress that has been achieved.</p>	<p>Potential vs. Risk: Potential for efficiency gains through ongoing reforms. Internally, there has been considerable political consensus. However, there is a risk of stagnation, especially if fiscal federalism issues are not resolved, donor funding reduces, and the remaining two programmes are unable to take over from PREMIS2 and RCRF-3</p>	<p>Potential vs. Risk: The SNBS plan is in place, but is not very robust. There are also risks related to digital infrastructure constraints, limited statistical and econometric capacity, weak donor coordination and information sharing, and a lack of data integrity (owing to a lack of harmonisation) and data credibility.</p>	<p>Potential vs. Risk: Potential for gradual improvement if reforms are sustained and enforcement strengthened. There is a risk of stagnation or regression if donor funding, already quite limited, further reduces, and there is limited internal political consensus on resolving these issues.</p>

Annex 3 Tracking progress

We propose some indicators which can help track progress against outcomes. We utilise the existing indicators highlighted in Somalia’s revenue and PFM roadmaps, the anti-corruption strategy notes, and those used by existing DRM and PFM programmes.

Table 8. Potential Indicators

Indicator	Reference	Target
DRM		
Domestic revenue projections to meet operational expenditure (FGS, 2024)	USD 369.4 million (2024 Actual) (World Bank, 2024d)	Increasing revenue targets to USD 533 million by 2027 to meet operational expenditure (World Bank, 2024d)
Domestic revenue as a share of GDP (FGS, 2024).	DRM as a share of GDP: 3% of GDP (World Bank, 2025c).	DRM as a share of GDP: 3.6 % of GDP in 2027. An increase in the revenue-to-GDP ratio of 0.2 percentage points per year (World Bank, 2024d).
PFM		
Budget Reliability: FGS’s objective is to continue to formulate a realistic budget and to implement it as intended (FGS, 2021)	Score is D* (Somalia has not completed PEFA and there is insufficient information to assess performance) (FGS, 2021).	To achieve at least B score in the PEFA assessment (FGS, 2021)
Budget timeline: Budget is implemented within a system of effective standards, processes, and internal controls, and resources are obtained and used as intended (FGS, 2021).	Score is D* (There was insufficient information to assess performance) (FGS, 2021).	To achieve at least B score in the PEFA assessment on expenditure arrears and accounting for revenue (FGS, 2021).
Budget credibility: Improve budget transparency scores (International Budget Partnership, 2023).	Current transparency scores are 37/100 (International Budget Partnership, 2023)	Transparency scores need to improve to 61/100, which indicates a country is likely publishing enough material to support informed public debate on the budget (International Budget Partnership, 2023).
Gender Budgeting: Tracking Budget Expenditure for Gender Equality. This indicator measures the government’s capacity to track expenditure for gender equality throughout the	Score is D* (There was insufficient information to assess performance) (FGS, 2021).	To achieve at least D score in the PEFA assessment on expenditure arrears and accounting for revenue. 25

²⁵ These are suggested scores since Somalia has not yet completed the assessment, and currently, none of the programmes are tracking this indicator.

budget formulation, execution, and reporting processes (PEFA, 2025a).		
Macro-economic forecasting: Macroeconomic and fiscal forecasting and revenue modelling (FGS, 2021).	Score is D* (There was insufficient information to assess performance) (FGS, 2021).	To achieve at least a D+ score in the PEFA assessment by 2025 (FGS, 2021).
Climate Budgeting: Budget alignment with climate change strategies Tracking climate related expenditure (PEFA 2025).	Score is D* (There was insufficient information to assess performance)	To achieve at least a D+ score in the PEFA assessment by 2025. ²⁶
Climate Budgeting: Tracking climate-related expenditure (PEFA, 2025b).	Score is D* (There was insufficient information to assess performance)	To achieve at least a D+ score in the PEFA assessment by 2025. ²⁷
Fiscal Federalism: Ensure that intergovernmental fiscal transfers are rule based and transparent (transfer criteria) (World Bank, 2025b)	The FMS completed self-assessments for fiscal years 2023 and 2024. FY 2025 approved grants to Federal Member States are reflected in the budget policy Framework paper (World Bank, 2025b).	FGS's budget provides for appropriations for FGS's fiscal transfers to FMS/BRA as per an intergovernmentally agreed formula. FMFF adopts a framework for the operationalisation of the NCC agreement on revenue assignment and expenditure responsibilities (RCRF-3) (World Bank, 2025b).
Financial Reporting: Time taken (from end of financial year) to publish annual audited financial statements - (FGS) (Months) (World Bank, 2025b).	11.00 (2020) (World Bank, 2025b)	6 months (2025) (World Bank, 2025b)
Financial Reporting: Consolidated fiscal reports published online by the FGS Ministry of Finance (Number) (World Bank, 2025b).	0 (2019) (World Bank, 2025b)	12 (2026) (World Bank, 2025b)
Anti-corruption activities		
Audit implementation: Implementation of previous years' audit recommendations relevant to the Ministries of Finance on the consolidated financial statements (World Bank, 2025b)	Baseline 50% (World Bank, 2025b)	Target: 75% (World Bank, 2025b)
Corruption Perception Index (Transparency International, 2024)	179/180 countries (2024) Score: 9/100 (Transparency International, 2024)	Score: Improvement by 4 points that would make the scores slightly higher than the 2020 figure (Transparency International, 2024).
Statistics Capacity		
Data production: Adopt Standard tools and methodologies for data production, collection and analysis (SNBS, 2024b)	Not adopted	By the end of 2025 (SNBS, 2024b)

²⁶ These are suggested scores since Somalia has not yet completed the assessment, and currently, none of the programmes are tracking this indicator.

²⁷ These are suggested scores since Somalia has not yet completed the assessment, and currently, none of the programmes are tracking this indicator.

Data coordination: Establish effective coordination and a complementarity mechanism for statistical activities (SNBS, 2024b)	Not established	By the end of 2025 (SNBS, 2024b)
Statistical Capacity: Establish Statistics and Applied Economics Institute (SNBS, 2024b)	Not established	By the end of 2025 (SNBS, 2024b)

Annex 4 Tables

Table 9. Revenue Laws Enacted and Updated

<p>Enactment of the Revenue Administration Law (RAL) 2019: The RAL 2019, introduced with a view to modernizing tax administration and improving tax collection, puts in place mechanisms for taxpayer registration, assessments and the issuance of Tax-Compliance Certificates (TCCs) to taxpayers— covering both inland and customs taxes. The law draws on both the 2012 Provisional Constitution and older legal provisions, some dating back to 1990s. Its implementation in terms of advancing the tax harmonization process has taken longer than anticipated, however, owing to an absence of collaboration between the FGS and FMSs during its drafting (Rift Valley Institute, 2025).</p>
<p>Income Tax Law (2025) is meant to complement and expand the RAL. The Income Tax Law was passed by parliament in May 2025. The law is set to function within the broader framework established by the RAL 2019, setting out specific regulations for income tax collection. However, concerns remain about the lack of consultation with FMSs during its drafting, particularly given that income tax has been identified as a shared revenue stream under the Baidoa Agreement (Rift Valley Institute, 2025). The current personal income tax rates are progressive with rates ranging from 0-18%. The corporate income tax rates range from a flat rate of USD 150 for small businesses to 18% for larger businesses (with income above USD 50,000).</p>
<p>Introduction of sector-specific licensing fees: Licensing fees have been imposed on telecommunications companies, air navigation services and tuna fishing operators, thereby generating additional revenue and setting clear regulatory standards in these critical sectors.</p>
<p>Revision of the Customs Act (2020): The 2020 revision of the Customs Act was introduced with the aim of simplifying customs procedures, thereby enhancing efficiency and revenue generation from imported goods (Rift Valley Institute, 2025).</p>

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