WHY SOMALIA IS STILL HAVING LOW DOMESTIC REVENUE: A QUESTION AND ANSWER COMPILATION

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ABSTRACT

Somalia is a post-conflict state and now getting rid of a sustained civil war. It has a steady growing economy and a lot of economic and policy reforms are in place. Fiscal sector reform is the biggest responsibility of the Federal Ministry of Finance with the special focus on the revenue generation since it's the most important goal of the current government. This paper presents a very brief study on the revenue status of the Federal Government of Somalia. The study describes the revenue status, recent successful reforms and challenges pressing the domestic revenue mobilization of Somalia. Dealing with "hard to tax" sectors, poor administration capacity, insecurity and political instability, incomplete transition to federalism, legislative and enforcement obstacles and other customs-related problems are the biggest aggressive challenges of domestic revenue mobilization in Somalia. The study recommends the Federal Government of Somalia to; (1) lessen the base informal business activities, (2) build its capacity of administration, (3) create a stable political and secure environment, (4) develop a robust fiscal federalism framework and (5) reform the customs operations with effective policy of trade facilitation and (6) update the tax legislations.

Key Words: *Somalia, domestic revenue mobilization, taxes, revenue, challenges*

INTRODUCTION

The challenge of revenue mobilization in Somalia is closely linked to issues of fiscal federalism. Federal Member States (FMS) collect and retain all taxes within their jurisdictions; the Federal Government of Somalia (FGS) collects revenues in Mogadishu only. This political context makes it difficult to create a harmonized system of taxation across the country. Without a mechanism to address imbalances across states, fiscal autonomy will exacerbate economic inequities across Somalia. Revenue and functional assignment are key to achieving meaningful revenue mobilization and service delivery across the country.

According to a report by World Bank, (2017), Domestic revenue mobilization (DRM) was a key priority for the sustainable development agendas. The Addis Ababa Action Agenda of July 2015 emphasized the importance of DRM noting that it's essential in achieving the sustainable development goals SDGs. The only reliable and sustained sources of governments' revenue are taxes and some no-tax revenues. A huge domestic borrowing from the public sources cannot sustain the coverage of the governments expenditure desires. Also foreign borrowing can increase the interest rate of the future debt which may create a difficulty of debt payment in developing countries.

The revenue mobilization in developing countries, a paper of (IMF, 2011), addresses that the key objective of any tax system is raising the revenue. In addition to that, long-run economic growth, distributional effects and state building are some other considerable factors. Domestic revenue mobilization is broadly recognized as the supreme sustainable manner to economic development, as numerous African countries need to improve their capacity to increase and manage tax revenue and expand the tax base (see ECA, 2018).

The Addis Ababa Agenda has reintroduced the universal attention on domestic resource mobilization (DRM) as a foundation for achieving the Sustainable Development Goals (SDGs). Currently, low income countries are able to mobilize only an average of 13% of their Gross Domestic Production (GDP), compared to 20% target which is the required level set by the UN to achieve the SDGs (Tamarappoo et al, 2016).

Bhushan et al (2013) conducted a study on the role of domestic resource mobilization in financing the post-2015 development agenda or Millennium development Goals. In their study, they addressed, despite Africa’s struggle to toughen its resource generation approach, there are some pressing challenges coming from structural factors, inefficient and ineffective tax systems, significant tax exemptions, tax avoidance and capital flight.

Taxes offers to the government a core opportunity; (1) to finance in poverty reduction and delivery of public goods and services, and helps (2) to lower aid dependence in developing countries, create fiscal reliance and growth sustainability. Domestic revenue mobilization allows achieving these two key objectives and helps the government to finance the operations without printing money or foreign indebtedness (Fakile, Adegbie & Faboyede, 2014).

Donors have long been funding tax reform projects, upon the rise of the Millennium Development Goals (MDGs) initiative in the 2000s. Donors and beneficiary governments have boldly put domestic resources mobilization at the focus of their efforts to overcome challenges facing against development. The issue has gained popularity in the last five years nearly the formulation of the initiative of Sustainable Development Goals (SDGs) in 2015, which aim to end extreme poverty by 2030 (Runde & Savoy, 2016).

The economy grew by an estimated 2.9% in 2019, up from 2.8% in 2018. The rebound is mainly due to recovery in agriculture and strong consumer demand. Inflation peaked at 5.1% in 2018 and declined to an estimated 4.4% in 2019 as food prices adjusted downward. The government budget remained in balance—given the restrictions on new public borrowing under staff monitored programs (SMPs) since 2016 and the need to keep inflation under control.

The current account deficit improved from 9% of GDP in 2018 to 8.3% in 2019 because livestock exports recovered and import growth slowed. In Somalia’s current account, aid and remittances have generally countered the deficits, while foreign direct investment has remained subdued. Limited control over the money supply due to counterfeiting and dollarization of the economy, coupled with low fiscal balances, leaves the monetary and fiscal authorities few instruments to prop up growth in the short run. Despite widespread dollarization, the Somali shilling has remained fairly stable, depreciating by only 5.7% since 2017 to 24,490.85 shillings per dollar in September 2019.

The Somali High Frequency Survey, wave 2, of 2017, indicates that Somalis are among the poorest people in Africa, with a poverty incidence of 69.4% and per capita income of about $400. Poverty among male headed households was about 72%, compared with 66% for female-headed households. A better understanding is needed of the country's poverty dynamics along gender lines. Youth constitute about 70% of the population, with about 67% of them unemployed. Only 30% of children are enrolled in schools—18% in rural areas.

History of Somalia's Current Revenue Status

Even before the civil war, Somalia had very low domestic revenue mobilization. The deterioration of domestic revenue began in the 1980s. In the first half of that decade, the tax to GDP ratio was about 10 percent; it declined to 5–6 percent, one of the lowest rates in the world, in the second half. As domestic revenue shrunk—mainly because of growing noncompliance by taxpayers—the government became increasingly dependent on external support, which was often motivated by Cold War geopolitical considerations (World 2017) External flows into Somalia undermined revenue collection by crowding out domestic fiscal capacities. Building a sustainable Even before the civil war, Somalia had very low domestic revenue mobilization. The deterioration of domestic revenue began in the 1980s. In the first half of that decade, the tax to GDP ratio was about 10 percent; it declined to 5–6 percent, one of the lowest rates in the world, in the second half. As domestic revenue shrunk—mainly because of growing noncompliance by taxpayers—the government became increasingly dependent on external support, which was often motivated by Cold War geopolitical considerations. External flows into Somalia undermined revenue collection by crowding out domestic fiscal capacities. Building a sustainable revenue collection system was not a priority given the "rents" to be extracted by playing Cold War rivals against each other.

World Bank (2015) launched the first edition of a series of Somalia Economic Update publications. Accordingly, this study revealed that Somalia is doing better in the fiscal side in the history after civil war. In 2012 the Federal Government of Somalia collected $30 million in domestic revenue having tax share of 0.9% to the GDP. Nevertheless the domestic revenue for the government increased to $84.3 million financing 56% of the recurrent expenditures. A tax driven revenue contributed 70% of the revenue in the period of 2012-2014. Tax on international trade from the Mogadishu's port and airport was the key source for the government revenue contributing 91% of the domestic revenue between 2012 and 2014. While collection of the revenue performed considerably, Somalia is so far under challenging conditions including: weak collection capacity and absence of legal and regulatory framework. The problem of having low revenue is a big threat to the provision and delivery of the public services.

World Bank (2017) published the second edition of Somali Economic Update with especial focus on domestic revenue mobilization. According to the report, government failed to provide public services while the society and business entities failed to pay taxes. There is a gap between the demand of public goods and the government's ability to generate revenue to meet the pressing demands. The government implemented easy-to-adopt measures to quickly raise revenues without developing a strong revenue mobilization strategy that would combine strong transparency and accountability. Revenue mobilization will reduce the dependence of the government on aid and enables the government fund the basic service delivery, thus strengthening state/citizen relationship. There is no vibrant assignment on revenue collections between federal government and member states; presently, federal ministry of finance collects the revenue only from Mogadishu. Somalia did not update its tax laws and regulations; instead, the government updated certain tax rates. There is no a strong fiscal federalism framework which guide the fiscal issues between the main government and member states.

IMF, (2018), despite the pressing challenges, the government implemented critical tax measures to lift 2017 revenue collection through meeting with the key taxpayers and agreed to pay the taxes based on the existing legal foundations. The high dependence on the external grants with narrow tax base creates a weak fiscal discipline. Meanwhile, a fully agreed customs harmonization among the federal government and its member states is required to speed up the initiative of having unified tariff rate throughout Somalia. The domestic revenue is currently 2% of the GDP.

Somalia, despite recent performances, is characterized with low domestic revenue, thus having the lowest revenue share of the GDP (Gross Domestic Production) in the world which is 2%. The Federal Government of Somalia is collecting only taxes of Mogadishu experiencing a very narrow tax base. The federal member states are collecting taxes of their own in their jurisdiction on the basis of a state level tax acts passed by their parliaments. They use this revenue to finance their operations through the budget. However, these taxes are not the only source of revenue for them since they receive grants from donors and federal government of Somalia.

Till now, there is no robust fiscal framework which explains the tax assignments among the governments, transfer policy and clear fiscal federalism. But there are some preliminary agreements on revenue sharing of some natural resources like fishery and petroleum and harmonization of sin tax rates. Tax harmonization process has been undertaken through discussions of the intergovernmental finance committee. This committee is built up of the ministries of finance of the federal government and member states. They often held two levels of meetings; a technical level of all revenue directors which provides an input to the second meeting of the ministers under the leadership of the federal ministry of finance.

The government is currently collecting sales taxes and tax on companies from the businesses, individual income tax, not for profit organizations and government civil servants, road taxes from vehicles owners, property transfer tax (notary), stamp duty, customs duty and non-tax revenue coming from sale of public goods and services such passport fees, visas, work permits, certificates, registrations, licenses, documentations and verifications, etc. But these taxes are only collected from Mogadishu. And even in Mogadishu, there are some sectors which have remained untaxed due to informality of the economy. However, the government grants tax exemption to imported goods of humanitarian, diplomacy or belonged to the government. It also grants an exemption of customs duty for the first capital of a new factory/industry and reduction of taxes to any raw material. This is aimed to encourage the domestic production sectors to partially supply the local demand.

The tax system of Somalia is experiencing a weak collection aptitude and challenges in managing the tax base. Provision of public goods and services is yet under threat of low and volatile domestic revenue. The Government's ability to collect taxes is important to fiscal practicability in the medium-term. However, due to hard conditions and insecure environment, the government focused on the implementation of easy to adopt measures to efficiently and effectively raise tax revenues without developing a tough revenue mobilization strategy that would integrate strong transparency and accountability. Tax collection has been below target up to 2016 due to uncertainty, high risk of collection and unpredictability, but 2017 the Federal government reached a milestone of surpassing the target of budgeted domestic revenue. Strengthening institutional capacity in domestic revenue mobilization is the core input of the government plan to get rid of the external dependence disease.

Table 1 shows us how trend the revenue of the FGS was in recent history of Five years, in other words, years of having the government budget.

Table 1: Revenue of the FGS in recent history of Five years

Year	Revenue ($million)	% Increase
2013	69.16	-
2014	90.31	31%
2015	114.28	27%
2016	112.67	-1%
2017	142.39	26%
5 year Percentage Increase		106%

Source: Ministry of Finance, Federal government of Somalia

The table shows that Somalia's revenue doubled in five years. In 2013 the actual revenue was $69 million, while 2017 was $142 million; this is an increase of 106% in five fiscal years. The pro rata of six-monthly report of 2018 demonstrates that the federal government is on the way to meet its budgeted domestic revenue $165 million. Revenue reforms in both sides of administration and policy with respect to the recommendation from international partners like International Monetary Fund and World Bank are key factors impacted.

Ministry of finance of the federal government implemented some reforms through its short and medium term revenue mobilization strategy. Some of these reforms are:

1. Introduction of sales taxes both on imported goods collected at the air and sea ports and locally produced goods and services such as telecom sector, hotels, restaurants etc.

2. Harmonization of sin tax throughout all states, these include tax rates of tobacco, khat and also departure tax. This agreement was signed by the intergovernmental finance ministers of the federal government and states in Gerowe, Puntland, in September 2017.
3. Extension of individual income tax to additional companies, not for profit organizations and foreign workers in Mogadishu. Before this extension, the government used to collect these taxes only from its civil servants by deducting at source. This extension of the income tax base improved much better for government.
4. Establishment of Large and Medium Taxpayers Office (LMTO) which is a specialized office for collection of taxes from large and medium sized enterprises/taxpayers in Mogadishu. The office will undertake the responsibilities of registration, filing the returns, collection, tax arrears management, audit and any other tax duties of large and medium scale businesses.
5. Consolidation of revenue collections of some government agencies to the revenue department, while revenue officers with Central Bank cashiers are collecting the taxes and user fees. This is a partial implementing of the federal government plan to merely consolidate all revenue collections to the ministry of finance's revenue department.
6. Modernization of collection system, where, after assessment, the taxpayer can deposit the taxes to which of any licensed private bank or directly to the Central Bank. This is aimed to get rid of manual cash collecting and to improve transparency and accountability in the public funds through eliminating the middle persons between the taxpayer and the national treasury.

The federal government of Somalia has benefited from these reforms and revenue is significantly increasing despite some pressing challenges. The revenue performances equipped with the above effective reforms, success in economic policy benchmarks with IMF's Staff Monitoring Program (SMP) and government's commitment of the reform, all together built a strong relationship and better engagement with donors and other international partners. Tax reform is an exercise targeting not only raising the revenue but also has other objectives such as equity, efficiency, macroeconomics stability and sustainability. It should rather seek to improve the quality of tax system as a whole and sustain long-run increase of revenue (see Junquera-Varela et al, 2017).

THEORETICAL REVIEW

Efficiency and Long-run Growth Theory

The effects which this theory suggests on the level and composition of taxes can have on efficiency and long-run growth—via investment, human capital acquisition, and innovation have proved hard to identify robustly. For OECD countries, Arnold (2016) concludes that property taxes are least damaging for growth, followed by consumption taxes, the personal income tax (PIT), and the corporate income tax (CIT): this is as theory suggests, with taxation of capital income having a potentially strong impact on investment. But there has been much less work for developing countries, and what there is tends to find no significant effect from either the overall level of taxation or the direct-indirect tax mix (Adams and Bevan, 2015).

Evidence that trade liberalization fosters growth suggests a potential impact from reduced reliance on trade tax revenue (Juul, 2016). Other effects likely operate through the considerable volatility of tax revenue in many developing countries (there being some evidence that this depresses public investment. Ebeke and Ehrhart,(2013), stressing the value of diversifying revenue sources. Distributional effects are important in themselves (poverty relief is a major motivation for raising revenue in the first place) and for their impact on compliance .Two points are critical in assessing these effects. First, what ultimately matters is not the impact of any tax instrument in isolation, but the combined impact of all such measures and of the spending they finance. A regressive tax may be the only way to finance strongly progressive public expenditure; conversely, where the ability to target spending is relatively weak, progressivity on the tax side is a greater concern. Second, those who bear the real burden of any tax may not be those responsible for remitting it to the government. To the extent that capital is internationally mobile, for instance, a small country cannot affect the after-tax return required by foreign investors: trying to do so will simply reduce the income of immobile factors (Heady, 2012)

The study examined the applicability of several theories among them, the overlapping Authority model propounded by Anthony, and Young, (2004) on intergovernmental relationship. This theory states that public revenues decentralization occurs when lower tiers of government have statutory power to raise taxes and carry out spending activities within specified legal criteria

Optimal Theory of Taxation

The theory of optimal taxation can be seen as a recipe for minimizing the costs of taxation. The costs on which this literature focuses are, as already noted, the efficiency costs of a distorted tax system. But the more direct costs of administration and compliance play little or no role in the analyses, and the theories of tax evasion that will be discussed below alert us to some of the important aspects of these costs (Fowler James, 2002). So far, the potential gains from using the insights of the tax evasion literature in the study of optimal taxation have not been fully exploited, although for some aspects of taxation the evasion perspective is obviously highly relevant. This is true, at least to some extent, with respect to the degree of progressivity of the personal income tax, and even more so with respect to the interface between personal and company taxation and the degree of differentiation of the indirect tax system. The literature on tax evasion should be seen as a way to bring issues of tax administration into the focus of the theoretical literature on tax design (Ghura, 2016).

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The social welfare function is based on the utilities of individuals in the societies REF, in its most general analyses; this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility (Graham, 2000). To reduce the problem facing the revenue collection, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. It is important to choose the tax system that maximizes the representative consumer‘s welfare, knowing that the consumer will respond to whatever incentives the tax system provides (Hazel, 2005).

EMPIRICAL REVIEW

Pressing Challenges

Several factors hinder revenue mobilization. Somalia’s economy is largely informal, with most of the population engaged in pastoral and agricultural activities. As a result, the revenue base is narrow. Most of the country’s ports and airports (its main revenue-generating assets) are not under the full control of the FGS. Customs duties are inconsistent, and many goods enter the country without paying duties. Humanitarian airlines and ships are exempt from taxation. There is disagreement over where port fees should be remitted as well as the level of fees that port management should retain. Mechanisms for ensuring that revenue is collected and fully accounted for are weak, creating loopholes. No reliable database on taxpayers exists. There is no clear revenue assignment between the FGS and state governments; the current situation, in which the FGS collects all its revenue from Mogadishu, is not sustainable. All of these issues need to be addressed if more domestic revenue is to be mobilized. Somalia faces many tax challenges.

Poor revenue performance had a negative impact on the budgetary process and expenditure patterns. At the time of budget preparation, ordinary expenditures were limited to projected domestic revenues. The decline in domestic revenues caused sharp reductions in budgeted allocations for line ministries. The deterioration in domestic revenues was attributed largely to the decline in the collection of border taxes as a result of the worsening security situation and other factors. Other sources of revenue also declined in real terms, but their impact on revenue performance was less dramatic. Import duties declined during the 1980s despite a generally increasing level of non-project imports and large real devaluations. This trend reflected the government’s valuation of imports at an exchange rate that was below the official rate, the imposition of specific rather than ad valorem taxes on imports, and increasing noncompliance.

Heavy reliance on indirect taxes dates to the pre-crisis period (In the period 1920-1980). The share of income tax in total tax revenue declined during the 1980s. Excise tax was levied on about 30 locally produced commodities at different rates, and countervailing duties were levied on similar imported goods. Sale taxes were levied on selected imports, wholesale trade, industrial products, and selected services.

Weaknesses in tax administration were not limited to import duties. The poor performance of income and business taxes largely reflected the failure to incorporate inflation into the assessment of such aggregates. The system did not call for a reassessment of the levels of annual earnings (declared and agreed to years before) for individuals and businesses that remained up to date in payment of their tax liabilities. As a result, throughout the 1980s the relatively low business profit levels declared 5 or 10 years earlier remained to a large extent unchanged in nominal terms, despite high inflation. Tax assessors only pursued those who were delinquent in tax payments, and even then, assessment was arbitrary, because of the absence of clear guidelines and the potential for corruption, given the extremely low pay of tax assessors.

The government made several attempts to revamp the tax system in the late 1980s. It increased sales and rental income tax rates, extended services tax to cover products with ad valorem rates, imposed an airport departure tax, and levied a withholding tax on the sales of bananas. In 1990, the government reorganized the Revenue Department of the Ministry of Finance, established a taxpayer identification system (which is no longer in existence), and contracted with a foreign firm to establish an import verification system. All these measures disappeared with the collapse of the central government in 1991.

Dealing with "Hard to Tax" Sectors

Because of a broad informality of the economy, most of sectors remain untaxed. In addition, Somalia is dealing with sectors that are 'hard-to-tax'. This is a common phenomenon in most of developing countries having small scale businesses, including small farmers, professionals, and state-owned enterprises but particularly where administrative capacity and compliance practices are not strong. 'Informality' is widespread in developing countries (IMF, 2011). Somalia is suffering of the high costs of informality and authorities are having difficult to tax the micro trading communities and other businesses far away of the government control.

Poor Administration Capacity

Poor capacity of administration and governance is common, not only in the revenue but also in most of government institutions of both Somalia and other fragile countries. Lack of reform financing ability, low staff skills and manual operations are the key principles of the institutions being weak and not enough to fit the purposes of revenue administration and governance. There is no comprehensive revenue system for collection and capturing the important information of taxpayers. Although the Federal Government of Somalia took some steps toward revenue administration reforms including consolidation of other agencies' collections, modernizing the mode of tax collection and establishing Large and Medium Taxpayers Office, still these are not enough to cover the gap of administration, governance and state building aspects of the revenue side. Poor administration capacity also existed in Africa's Anglophone countries as found by (Fjeldstad & Heggstad, 2012).

The Federal Government of Somalia has made some important changes to its the mode of tax collection. First, the ministry has established a specialized office for large and medium-sized taxpayers. The duty of the Large and Medium Taxpayers Office (LMTO) is to focus on activities by large and medium-scale business entities in Mogadishu and to serve them better, while taking the responsibilities of operations management, including assessments, tax collections, compliance tasks, audits, and verifications. They also provide these taxpayers with relevant information and advice, and help them to interpret the laws. The high concentration of large taxpayers is a recent phenomenon and if these taxpayers are noncompliant, it can result in the loss of a significant amount of government revenue. Second, the Federal Government of Somalia introduced unique tax identification numbers (TINs). It began this process in early 2018, with the aim of registering taxpayers and making businesses formal according to the revenue authorities. TINs facilitate the sharing of information among different revenue offices and the efficient use of taxpayers' information. They also eliminate the possibility of taxpayers registering multiple times, increase compliance levels, and widen the tax base by ensuring that all entities, whether they are businesses, nonprofit organizations or individuals, are registered. Third, the Ministry of Finance developed a modern tax collection system. Previously, payments were made by taking cash to the revenue offices, and bank and mobile money payments could not be accepted. The new strategy ends this old way of collection, and taxpayers can – after their tax assessments have been completed – directly deposit money in the Central Bank of Somalia or in designated accounts in the private banks, which are opened and managed collectively by the Ministry of Finance, the Accountant General, and the Central Bank of Somalia. The system also eliminates the cashiers between the taxpayers and the treasury. Making the Central Bank of Somalia the collection point, using the commercial banks, and accepting mobile money payments has helped to speed up the payment process, bringing it in line with modern financial systems. Additionally, it eliminates the need for taxpayers to carry cash in insecure environments and reduces theft opportunities for cashiers.

Fourth, the Ministry of Finance centralized the collections of other government agencies and cancelled several private revenue collection contracts. This is a part of the ministry's strategy to consolidate the administration until all operations come under its full control, and is the starting point in its plans to regain its role as the sole authority responsible for the country's public financial management, both in terms of collecting revenue and spending it through the budget. Fifth, the ministry automated its key operations by adopting a new systematic way of doing business. The aim, in this case, was to digitize operations and get rid of manual processes. The Somalia Financial Management Information System (SFMIS) was installed at most of the revenue collection points. Preliminary systems were introduced to collect road taxes and registration taxes, while the customs system is connected to the SFMIS. This automation has helped the government to increase revenue in speedy way and capture the information it requires about taxpayers. Finally, a number of customs administrative improvements were undertaken recently. These developments included: the adoption of a single administrative document for declaring goods imported to and exported from Somalia; the use of a harmonized system of classification; the digitalization of some key operations; and educating traders about the new procedures. The aim of these reforms was to improve customs management by increasing government revenue, facilitating trade, securing ingoing and outgoing goods, and establishing a strong statistical background. The second phase is to extend the reforms to the states and equip their customs offices with good administrative systems.

Insecurity and Political Instability

Political instability and insecurity problems are also big matters. Somalia is currently getting rid of the prolonged civil war but this can be a gradual process. Insecurity followed by political instability is the biggest threat of the state building process. The government controls only Mogadishu, the capital city, and this means that it can only manage to tax one city. Also the federal member states are controlling their capital city and around, except Puntland which is the only state controlling most of its jurisdiction. Active armed groups are controlling areas out of the government control and business communities are asked to pay again the so-called tax by these armed groups (Foulds, 2016). The authorities are not fully controlling the border customs, clans are fighting against in somewhere and fragility is everywhere. Together, these factors are hindering the government's strategy to fully adopt a general tax policy and implementation throughout Somalia.

Incomplete Transition to the Federal System

There is incomplete transition to the federal system. Somalia adopted a federal system of government while all rules, regulations and laws, including the country's administration laws remained in a unitary basis. For example, the existing tax laws and regulations are based on unitary and socialist government having absolute power of political and large and medium businesses were run under state-owned enterprises and industries. The system has completely changed and currently Somalia is a non-socialist federal government and the fundamental regulations are not yet conformed to the federalism. In addition, there is no clear fiscal federalism framework. This framework could explain how the federalism applies in the economics of fiscal policy setting a clear strategy of both sides of the fiscal equation. In the revenue side it sets a clear strategy of tax collection assignment among the federal government and states, fiscal regime design and revenue sharing mechanism. In the expenditure side it sets the strategy of budgeting, transfers and managing the government spending in a transparent and accountable manner. There are some agreements (Fiscal Forum, and a draft report titled "State of Affairs on Federalism in Somalia", jointly developed by the Ministry of Finance, the World Bank and UNDP) between the federal government and member states on tax harmonization and revenue sharing model of the fishery and petroleum resources, but still these agreements-or in some cases memorandum of understanding (MoU)-cannot serve as a final reference since the foundation laws are not yet approved by the parliament such as: revenue law and petroleum law.

Outdated Laws and Poor Enforcement

Somalia did not modernize or amend the outdated and old laws and regulations. This exists not only in the revenue laws, but also in most of regulations such as: judiciary, finance, resources and administrative laws. On taxation side, some of laws are dated back to colonial era; some are based on the socialist and unitary ideologies where the government had an absolute power of tax regulations and enforcements. The federal government of Somalia did not make these laws go with the current environment and instead, it only set up some tax rates through budget appropriation law (World Bank, 2017). While other rates remain unchanged and are practiced as it's in the Somali Tax Laws. On the other side, the government is facing difficulty in the enforcement. Although there is a fiscal police/guard, still courts need massive reforms of both technically and capacity to qualify the implementation of rules of the land. These police (fiscal police/guard) are part of the police under the commander in chief but specialized to enforce the tax and customs regulations.

Customs-Related Problems

Fragile countries including Somalia are characterized by lack of a better and comprehensible tariff system for assessing custom duties, misclassification of goods, inadequate documentation of the process, poor border protection, lack of statistical role of the customs and some other old techniques which do not fit the purpose of both customs performances and modern trade facilitation. Somalia's customs do not have sophisticated customs systems like ASYCUDA and Harmonized System of goods classification compared to the region and also the world those are using these modern methods. It rather uses a preliminary systematic database which captures at least some important information but it's not good enough to go with the potential trade transactions and wider customs operations. In addition, the federal government controls the custom points of only Mogadishu, while Kismayo and Bosaaso are managed by the states of Jubbaland and Puntland and Berbera port is under Somaliland. Somalia is not practicing ad-valorem system of taxation; it rather applies specific unit method which causes a massive shortage or loss of revenue. The federal government of Somalia developed a common strategy roadmap for customs and states are waiting a federal level leadership of this matter. This will help improve the customs operations and process and also achieve a uniformed customs in the whole country.

CONCLUSION AND RECOMMENDATIONS

Somalia is a post-conflict economy which is characterized by a vulnerability of macroeconomic variables such as lack of a steadily growing rate, high inflation, massive unemployment rate, deficit trade balance, lowest per capita income in the globe, high external shock with a dollarized business. The Federal Government of Somalia has been struggling to put the country out of these negative features and paid much effort in the process of state building. Fiscal and monetary sectors are the key components of the broad reform package. In the fiscal side, the government struggled to have a balanced and realistic budget. In addition, the finance ministry developed a short-medium term revenue strategy which explains the list of required tax reforms in 2017 and 2018. Despite of facing challenges and hard conditions existed, the government insisted to implement this strategy and the current success in revenue performance is the result of the strategy implementation. The study recommends the federal government of Somalia to; (1) lower the extent of economic informality, (2) build its administration capacity, (3) create a stable political and secure environment, (4) develop a strong fiscal federalism framework and (5) enhance the customs operations and develop an effective policy of trade facilitation and (6) update the tax legislations.

It's recommended to conduct any further research about Somalia's taxation including legal and tax policy, revenue administration and customs. Doing further studies will provide necessary information of about Somalia's revenue in particular and fiscal issues in general.

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