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Fiscal Federalism in Somalia: Opportunities and Challenges

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Abstract

Following several extensive negotiations and reconciliation efforts, Somalia marked a historic milestone with the formation of its first internationally recognized Transitional National Government in 2000, followed by the Transitional Federal Government in 2004. Somalia made another significant breakthrough in 2012 with the adoption of a provisional constitution, establishing a two-tier system of governance comprising the Federal Government and Federal Member States: Puntland, Jubaland, Southwest, Galmudug, and Hirshabelle. Since then, Somalia has made significant progress in creating federal institutions, particularly in fiscal federalism, through the establishment of intergovernmental platforms that reached important agreements and achieved critical milestones. However, advancing the fiscal federalism agenda remains challenging, with issues such as constitutional ambiguities, unclear functional and revenue-raising responsibilities, ineffective resource-sharing arrangements, and recurring intergovernmental disputes between the Federal Government and Member States.

Keywords

Federalism, fiscal federalism, revenue assignment, functional assignment, provisional constitution, intergovernmental relations, natural resources, citizen participation, and Somalia.

A) Introduction

Somalia's history is characterized by a complex interaction of colonialism, clan dynamics, and prolonged periods of conflict. The country is located in the Horn of Africa, one of the most conflict-prone regions globally due to colonial legacies, governance failures, political instability, fragile institutions, ethnic and clan divisions, and resource-driven conflicts. The region has struggled to address underlying issues of ethnic, linguistic, religious, and socio-economic conflicts while failing to promote unity, trust, inclusivity, peace, stability, and sustainable economic growth. (Steytler, 2023).

In this paper, we explore the challenges that the modern Somali state faces, with a particular focus on fiscal federalism. We first provide a general overview of historical developments that have formed the current Somali federal state, then outline the framework of federalism in general and fiscal federalism in particular. Finally, we examine specific challenges related to fiscal issues, in particular the distribution of revenues, and the issues connected to revenues from natural resources. We also examine whether local governments that are responsible for service delivery could be made more responsive to serve their communities. Finally, we outline three main areas that in our view need to be prioritized in the current discussions of constitutional review.

B) Background Information

The colonial era of Africa's scramble, which began in the late 19th century, led to the division of Somali territories between European powers, mainly Britain and Italy. Several political parties, particularly the Somali Youth League (SYL) and Hizbia Dastuur Mustaqil al-Somal (HDMS), led independence movements with different opinions on governance structure.

The main opposition party, HDMS, argued that all necessary preparations, including the constitution and census, should be finalized before independence to prevent dominance in the political arena. The party strongly advocated a federal governance model to decentralize power, safeguarding the socioeconomic, cultural, and political interests of the southern population and reflect the Maay and Maaxtiri dialects (Mukhtar, 1989). This region, predominantly inhabited by pastoralists and farmers, is the most fertile and productive area between the two rivers.

In 1960, British Somaliland and Italian Somaliland united to form the Republic of Somalia, marking an important moment in the nation's history. Subsequent to this unification, a popular referendum took place, and in July 1961, Somalia enacted a new constitution, indicating the formation of a civilian multi-party democratic government. During this period (1960-1969) efforts were made in the decentralization of administration through the election of district and municipal councils. (Davies, Yasin Jama, Watanabe, K. Bhatti, 2023).

In 1969, a military coup led by General Mohamed Siad Barre overthrew the civilian government following the assassination of President Abdirashid Ali Sharmarke. The military regime dissolved the existing parliament and the Supreme Court, suspended the constitution, banned all political parties and activities, and promoted scientific socialism rooted in Marxist theories heavily influenced by the Soviet Union at that time. The military junta operated on a highly centralized, authoritarian basis, consolidating power through his military dictatorship until its eventual collapse in 1991.

Following the fall of Siad Barre's military rule in 1991, Somalia plunged into chaos, fragmentation, and lawlessness. The country endured numerous challenges, including the breakdown of governmental institutions, widespread violence, and violent clan conflicts over the control of power and resources, which enabled warlords and Islamist movements to emerge. In May 1991, Somaliland in the northwest unilaterally declared independence, and Puntland, a semi-autonomous region in the northeast, was formed in August 1998. Despite multiple challenges, both international and local efforts were initiated to foster negotiations, rebuild and salvage the nation.

The first international attempts took place in Djibouti during June and July 1991, where six organizations were involved, with Ali Mahdi being endorsed as president. The decision was, however, rejected by General Muhammad Farah Aidid, sparking a violent civil war in Mogadishu and southern Somalia. In December 1997, the Cairo Peace Conference convened 28 signatories, including Ali Mahdi and Hussein Aidid, to formulate the Cairo Declaration, which called for a Council of Presidents, a prime minister, and a national assembly. (Amisom, 2025).

In 2000, the Transitional National Government (TNG), Somalia's first internationally recognized government since 1991, was established in Arta, Djibouti, with Abdiqasim Salad Hassan elected as president. Nevertheless, the TNG encountered resistance from warlords and faction leaders, limiting its effectiveness. In 2004, reconciliation efforts started in Eldoret and ended in Nairobi with the adoption of a Federal Transitional Charter, considering federalism as a governance framework to accommodate diverse interests, rebuild trust, promote political stability, increase public participation, improve service delivery, and prevent the re-emergence of an authoritarian central government.

In 2009, Sheikh Sharif Sheikh Ahmed, a former leader of the Islamic Courts Union, was elected as the transitional president by Somali lawmakers in Djibouti following the resignation of his predecessor, Abdullahi Yusuf Ahmed. As president of Somalia's Transitional Federal Government, Sheikh Sharif faced the daunting task of restoring peace, unifying a divided nation, and rebuilding state institutions. His presidency marked a critical period of transition, characterized by efforts to defeat insurgencies, stabilize governance, and establish a more enduring political structure.

In 2012, Somalia made a significant breakthrough with the adoption of a provisional constitution that established a two-tier system of government, consisting of the Federal Government of Somalia (FGS) and the Federal Member States (FMS). Currently, the FMS include Puntland, Jubbaland, Southwest, Galmudug, and Hirshabelle. The capital city, Mogadishu, where the Federal Government primarily operates, is administered by the Banadir Regional Administration. Somaliland, however, has declared self-independence since the onset of the civil war in 1991 and considers itself separate from the federation.

At the federal level, the government is structured around a Federal Parliament, which includes an Upper House with up to 54 members, representing the FMS, and a Lower House consisting of 275 members representing all communities of the Federal Republic in a balanced manner. Together, these two houses elect the President of the Federal Republic, who serves as Commander-in-Chief of the Armed Forces, assents to legislation passed by Parliament, and appoints the Prime Minister. The Prime Minister acts as the head of the FGS, with the authority to appoint and dismiss members of the Council of Ministers. While the judiciary operates as an independent branch, its capacity to address intergovernmental disputes and constitutional matters is constrained by the absence of a dedicated constitutional court, underscoring a critical gap in Somalia's federal governance structure.

All post-transitional federal governments have pledged to finalize the provisional constitution, eliminate terrorist groups, and conduct multiparty democratic universal suffrage elections. However, progress on these three fronts has been minimal. The current administration, led by Hassan Sheikh Mohamud in his second term, has made significant achievements. The government has actively initiated a constitutional review process, resulting in amendments to the first four chapters, with chapters five to nine currently under review. Additionally, three key election-related laws have been approved, and an 18-member National Independent Electoral and Boundaries Commission has been appointed. Despite these efforts, the FGS has faced significant opposition, with critics arguing that the processes are not inclusive of all political stakeholders and are tailored to benefit the incumbent leadership.

The National Consultative Council (NCC) serves as a critical platform for intergovernmental cooperation in Somalia, bringing together the President of the FGS, the Prime Minister, the Deputy Prime Minister, the Presidents of FMS, and the Head of the Banadir Regional Administration. Despite its absence as a formal body in Somalia’s Provisional Constitution, the NCC wields significant influence, shaping the political and governance landscape by fostering dialogue and consensus on national priorities. The council helps bridge divides between the FGS and the FMS, ensuring that critical decisions reflect shared priorities and promote national unity and stability. They have been instrumental in advancing Somalia's federal agenda by reaching critical agreements, including revenue and resource sharing, allocation of powers among governments, security and justice sector models, elections, and democratization.

C) General Federal Framework

Fiscal federalism is a framework that governs the financial relationship between different levels of government. The fundamental components of fiscal federalism include revenue assignment, which refers to the process of determining which level of government has the authority to levy and collect taxes, and expenditure responsibilities, which involves deciding which level of government is responsible for funding and providing various public services. These components, along with intergovernmental fiscal transfers, natural resource allocation, and subnational borrowing, play a critical role in ensuring that resources are allocated effectively and that government functions at various levels can be financed sustainably.

The Provisional Constitution of Somalia outlines fundamental principles of federalism but leaves many critical aspects open to future negotiation and agreement. Article 50 sets out the principles of federalism, emphasizing that every level of government must enjoy the confidence and support of the people. It further states that power should be exercised at the level of government where it is most effective, all member states should enjoy similar levels of services and support, resources must be distributed fairly, and revenue-raising responsibilities should align with the level of government most capable of effectively exercising them.

Article 49 of the Provisional Constitution of Somalia allows two or more regions to join together to form a FMS, with boundaries based on the administrative regions that existed prior to 1991. Meanwhile, Article 54 reserves exclusive powers for the FGS over critical areas, including foreign affairs, national defense, citizenship and immigration, and monetary policy. Additionally, Article 44 states that the allocation of the natural resources of the Federal Republic of Somalia shall be negotiated and agreed upon by the FGS and the FMS in accordance with this Constitution.

The constitution remains unclear on several critical issues, particularly those related to public finance. It does not explicitly define revenue-raising powers, functional assignments between levels of government, fiscal transfers, subnational borrowing, or resource-sharing arrangements. As a result, these contentious matters are often left to ordinary legislation, subsidiary agreements, and ongoing discussions between the FGS and the FMS. To date, little progress has been made in reaching a consensus on revenue assignment and resource sharing among all levels of government. Currently, official fiscal transfers from the FGS to the FMS governments are made on ad hoc terms, often leading to fiscal imbalances and intergovernmental disputes.

The current federal government has embarked on a comprehensive review of the provisional constitution in a quest to finalize and replace the long-standing provisional framework. The Parliamentary Oversight Committee and the Independent Constitutional Review and Implementation Commission (ICRIC) amended the first four chapters of the constitution, which were subsequently approved by the parliament. Currently, the involved bodies are conducting stakeholder consultations, engaging key actors at both the federal and state levels, including civil society representatives, to discuss proposed amendments to chapters five through nine, which contain critical provisions related to power allocation and resource sharing between the FGS and the FMS (ICRIC, 2024).

Over the past decade, the FGS and the FMS have introduced several fiscal federalism reforms. These include sector-based functional assignments, revenue-sharing agreements for natural resources and fisheries, and revenue-raising powers. However, the implementation of these agreements remains unclear and a daunting task.

In December 2022, the National Consultative Council approved sector-based functional assignments to define the distribution of powers across different levels of government, while leaving residual powers to be discussed and implemented based on established standards. The functional assignment of powers among the governments reserved 44 powers to the federal level, shifted 29 powers to the member state level, and assigned 31 responsibilities to the local level, with 19 concurrent powers (NCC, 2022).

The agreed allocation of powers among governments by the NCC grants the FGS exclusive authority over foreign affairs, international relations, immigration and citizenship, monetary policy, interstate transportation, international trade policy, postal services, national defense, the federal police, national intelligence agencies, the federal constitutional court, and the national electoral commission. Conversely, the FMS are tasked with managing regional and local matters, including drafting and enforcing state constitutions, formulating land policies, regulating state police and judicial systems, fostering local governance, collecting specific taxes, managing budgets, and overseeing sectors such as agriculture, irrigation, local industries, rural development, healthcare, primary, secondary, and vocational education, local infrastructure, as well as providing energy and water services.

After a series of consultative discussions led by an appointed ad hoc technical committee, the FGS and its FMS reached an agreement on revenue allocation powers. The agreement states that taxes that affect macroeconomic stability and redistribution should be allocated to the FGS, while the mobile tax base and consumption tax could be concurrently allocated by the FGS and the FMS. The agreement grants the FGS exclusive powers over customs duties, excise duty, stamp duty, licensing fees on telecommunications and financial institutions, road tax on highways and intrastate roads, revenue from natural resources, grants, and loans. Meanwhile, FMS could levy various taxes, including but not limited to property tax, road user tax, driver's licenses, farmers, and market fees.

The table below illustrates actual revenue figures for the FGS and its FMS, categorized into domestic revenue (a combination of taxes and other revenue sources) and grants received as official development assistance. According to the 2023 consolidation tool of the FGS Ministry of Finance, the total revenue for both the FGS and the FMS amounted to $940.29 million, with 49% ($460.34 million) generated from domestic revenue and 51% ($478.84 million) from grants.

The FGS relied heavily on grants, which accounted for 55.4% of its total revenue, compared to 44.6% from domestic sources. Similarly, the four new FMS, namely Jubaland, Southwest, Galmudug, and Hirshabelle depended on grants for 62% of their revenue, with only 38% coming from domestic sources, underscoring limited domestic revenue generation capacity. In contrast, Puntland demonstrated fiscal resilience, sourcing 89% of its revenue from domestic sources and relying on grants for only 11%, making it a standout performer in revenue mobilization.

Source of Revenue	FGS ($Million)	Puntland ($Million)	Jubaland ($Million)	Southwest ($Million)	Galmudug ($Million)	Hirshabelle ($Million)
Taxes	226.48	66.65	22.79	4.55	7.67	3.94
Grants	408.53	10.79	18.27	15.51	14.38	11.36
Other Revenue	103.01	18.41	6.71	0.41	0.75	0.08
Total Revenue	738.02	95.85	47.77	20.47	22.8	15.38

Source: 2023 Consolidation Tool of the FGS Ministry of Finance, Somalia

Somalia faces complex and multifaceted challenges in revenue mobilization and administration that require urgent and unified action. A key issue is the absence of effective legal frameworks and strong tax policies that have the potential to improve the efficiency of revenue systems and prevent fraud, corruption, and embezzlement. Additionally, ongoing political instability, poor coordination, continuous conflicts, and the presence of terrorist groups have severely hindered revenue collection efforts. Citizens and businesses have little trust or confidence in government taxation, as it fails to result in the adequate provision of services. Notably, the absence of a constitutionally mandated autonomous revenue authority and a revenue allocation commission also presents a major obstacle.

Furthermore, both the FGS and the FMS have a low tax base and rely heavily on donor support to sustain their operations and deliver essential services. According to the data in the above table, the FGS, Puntland, and Jubaland generate a significant proportion of their revenue domestically due to their operational ports, which serve as critical hubs for trade and revenue generation. For instance, Puntland showcases outstanding fiscal performance, with 89% of its revenue sourced domestically, while Jubaland also demonstrates notable domestic revenue generation. In contrast, the remaining FMS Southwest, Galmudug, and Hirshabelle have lower revenue performance due to the absence of operational ports.

D) Natural Resources

Somalia is endowed with numerous natural resources, including extensive pastures, diverse minerals like uranium and iron, vast reserves of oil and gas believed to be among the largest in Africa, and a 3,000 km coastline, which is the longest in Africa. The agricultural sector benefits from about 8 million hectares of cultivable land, with primary production concentrated in the southern regions. Additionally, significant mineral resources, such as gypsum, gold, and sepiolite, could provide a foundation for economic development, should the management of these resources be effectively organized within the framework of fiscal federalism. It is worth noting that the natural resource base is the potential for trade and revenue generation, but as it is now, most trade is in raw materials with zero value addition (Hodan and Mutuku, 2022).

The Ministry of Petroleum developed a Revenue Sharing Agreement in 2016 which at least three States are reported to have signed (Galmudug, Southwest, and Puntland (FGC Advisory Note, 2017). The agreement outlines that the management of natural resources and collection of revenue is performed by the federal authorities. However, these agreements cannot be regarded as the final legal reference for natural resources, but rather only as a preliminary proposal for anticipated constitutional changes.

1. Petroleum

On the petroleum side, The Ministry of Petroleum has issued several contracts for seismic exploration, a Model Production Sharing Agreement (PSA), has commenced bilateral production sharing negotiations with Soma Oil and Gas, and has announced plans for a licensing round in 2017 (Model of Offshore Production and Sharing Agreement, 2019). The Interim Revenue Sharing Agreement (RSA) sets out how government revenues from petroleum and minerals would be shared between the FGS and the FMS (FGC Advisory Note, 2017).

According to the Baidoa 2018 Agreement, the FGS would receive a 55% share of the offshore oil profit, the oil-producing FMS would receive 25% of the profit while 10% of the profit would be transferred to the district that the offshore oil was extracted from. The remaining 10% is shared by the other non-producer FMS, which would mean a 2% share of each of the nonproducer FMS. FMS are not happy with this petroleum revenue sharing formula as this “create[s] horizontal inequalities between the different FMS, with a petroleum-producing FMS receiving between 10 and 17 times more revenue than a non-producing FMS” (Somali Public Agenda, 2021).

The 2016 Petroleum Agreement set out revenue-sharing mechanisms for two categories of petroleum, namely Onshore Petroleum/Offshore Petroleum within 6 nautical miles of the shore and Offshore Petroleum beyond 6 nautical miles of the shore. The proposed shares under each category were as follows:

	Onshore and offshore up to 6 nautical miles	**Offshore beyond 6 nautical miles**
FGS	30%	60%
FMS (producing if onshore, adjacent if offshore)	40%	20%
FMS (non-producing, or non-adjacent if offshore)	30%	20%

The petroleum proposal has several flaws, as it does not define the role of the local governments and which petroleum revenues are to be shared. Depending on the potential scale of the revenues involved, this could generate substantial inter-regional inequity. It assumes that petroleum revenues will be received and distributed by the Somalia Petroleum Authority (SPA). It assumes that the State has access to population and poverty statistics that enable an equity-based formula to be developed.

2. Fisheries

The Baidoa agreement on the management of fisheries and revenue sharing of March 2019, allocates 29% of the fisheries revenue to the FGS, 18% to Puntland, 14% to Hirshabelle, and 13% each to the remaining three FMS – Jubaland, South West, and Galmudug (OAG, 2021). Those who receive fewer shares in donor grants and revenues from fisheries licenses, particularly Galmudug, South West, Jubaland, and Hirshabelle claim that this distribution is flawed (Somali Public Agenda, 2021).

The 2016 draft Fisheries agreement for offshore fishing (defined as beyond 12 nautical miles) proposed the revenue sharing arrangement of 50% of revenues to be reinvested in fisheries management at the federal and state level and the other 50% of revenues to be shared between the FGS and the FMS. The agreement proposed the following revenue-sharing split between the FGS and the FMS (Draft Agreement on Offshore Fisheries Management, 2016):

FGS	25%
Puntland	15%
Galmudug	15%
South West	12%
Jubaland	13%
Hiraan/Middle Shabelle	12%
Banadir	8%

As with the Petroleum agreement, the rationale for the differentiated split in shares, and the implication for inequity, is unclear. Likewise, the agreement also assumes that revenues will be received and distributed by the Somalia Fisheries Authority. On the whole, how revenues from natural resources are to be distributed is still conflictual and whether these agreements will be implemented in the future remains unclear.

E) Intergovernmental Relations

Intergovernmental relations refer to the interactions, relationships, and coordination between governmental entities of all types and levels within a political system (Hashi and Barasa, 2023). It is a crucial and integral component of governance in modern federal systems (Chattopadhyay and Whittington, 2019). In the context of fiscal federalism, it facilitates the flow of funds from one level of government to another for various purposes, including addressing fiscal imbalances and regional disparity.

Over the past decade, the FGS and its FMS have made notable progress in strengthening intergovernmental relations. In 2016, the Ministry of Finance established a two-tiered Intergovernmental Fiscal Federalism Committee. The first level consists of a technical committee that provides analytical outputs and technical assistance, while the second tier operates at the ministerial level to facilitate political deliberations and decision-making.

Since its inception, the committee has convened 17 technical meetings and 22 ministerial-level meetings, addressing key issues in fiscal federalism, reaching several agreements, and reaching significant milestones. Among the notable achievements are the adoption of a Unified Chart of Accounts, a Harmonized Fiscal Reporting Format, the introduction of Unified Tax Identification Numbers, the harmonization of various tax rates, and the development of a Revenue Assignment Policy Paper.

The established intergovernmental platforms faced several challenges, such as the politicization of technical matters, a significant trust deficit over time, and a low level of intergovernmental cooperation that promotes inclusivity and fosters sustainable growth. The platform also suffers hurdles related to institutionalizing and formalizing for a more systematic approach to ensure that its recommendations have a formal status and are better implemented. The above-mentioned lack of legal and institutional framework on critical issues, including revenue sharing, expenditure responsibilities, and fiscal transfers remains an issue.

The FGS typically makes transfers to the FMS on an ad hoc basis, which results in an inequitable distribution of resources and intergovernmental disputes. Isak and Ali (2019) outline that the FGS currently makes three kinds of transfers to sub-national governments. The first is a conditional grant, given equally to all states and the Benadir region, and is only spent on certain areas agreed upon by the government, such as health, education, and civil-service staff salaries. The second type consists of general transfers, which come without spending conditions. The third type involves the FGS transferring 15% of customs revenue back to the Benadir Regional Administration. These transfers serve crucial roles in funding essential services, enhancing regional equity, and promoting economic development.

According to the 2023 consolidation tool of the Ministry of Finance, the intergovernmental transfers from the FGS to the FMS have shown a notable increase and improved predictability over the years. The proportion of these transfers rose significantly from 9% in 2019 to 30% in 2022. However, there was a slight decline to 22% in 2023 when considering the consolidated total transfers between 2019 and 2023. In budgetary terms, the transfers grew from USD 20,396,028.71 in 2019 to USD 67,303,370.26 in 2022, before dropping to USD 48,408,876.07 in 2023.

The ongoing dispute and increasing distance between the FGS and Puntland State, the oldest state in Somalia, likely contributed to the reduction in 2023. This strained relationship may have disrupted the flow of funds and hindered the fulfillment of requirements linked to reform ideas, leading to the observed decline in intergovernmental fiscal transfers for 2023.

Thus, to strengthen the intergovernmental transfer system, Somalia requires a legal and institutional framework that fosters stability and prevents both horizontal and vertical imbalances. Additionally, there is also a need to establish and adopt a formula-based fiscal transfer that considers critical parameters such as population size, landmass, regional poverty levels, resource endowments, state-specific revenue performance, reporting and audit capabilities, and expenditure management. By utilizing empirical data to develop these formulas, we can ensure fair and transparent allocation of funds, thereby minimizing the potential for political linkages and manipulation. With this, Somalia can build a robust system of intergovernmental relations that promotes stability, unity, equitable resource sharing, and effective governance.

F) Local Government and Citizen Participation

Citizen participation plays a vital role in advancing the social contract and fostering trust between governments and their citizens. In Somalia, where complex governance challenges persist, enhancing citizen engagement is essential for the effective functioning of the state, as it allows citizens to have a voice in the decision-making process. The trust and satisfaction of Somali citizens in government institutions have steadily declined over the years due to a lack of accountability, transparency, inadequate services, limited capacity, and widespread corruption. Abdi and Abdulrahman (2025) argue that although public trust has proven critical, the question of restoring it after civil conflict has received minimal attention and remains unresolved. Their further research highlights that citizen participation plays a pivotal role in fostering public trust in Mogadishu's local government.

According to the 2014 UNDP report on enhancing citizen participation in local governance, public participation can result in more responsive governance, enabling local authorities to better understand the needs and priorities of their communities. Governments at all levels can utilize various methods and approaches to actively engage citizens, including:

- ***Public Consultations:*** Regular public meetings can be held to discuss budgetary priorities and gather input from citizens.
- ***Surveys and Feedback Mechanisms:*** Surveys can gauge citizen preferences regarding budget expenditures, while feedback mechanisms can facilitate citizen engagement.
- ***Partnerships with Civil Society Organizations:*** Collaborating with civil society organizations can enhance outreach and include marginalized groups in the budgeting process.

At the local level, several mechanisms facilitate citizen engagement and interaction with officials. Town hall meetings and public forums provide opportunities for citizens to ask questions and discuss issues related to service delivery and public resource management. Participatory planning committees and community-based structures offer structured avenues for citizens to contribute directly to decision-making processes. Additionally, tools such as surveys and suggestion boxes gather diverse perspectives from the community. Leveraging technology and digital platforms, including social media and telecom-based channels, can further enhance participation by providing impartial, effective, and accessible ICT-based mechanisms. The cornerstone of successful citizen participation initiatives lies in incorporating and acting on feedback to improve services and adjust policies, ensuring a responsive and inclusive approach to governance.

Participatory budgeting could offer a transformative solution for enhancing citizen engagement in Somalia's local governance (Gianpaolo Baiocchi and Ernesto Ganuza, 2014). It also aspires to empower politically excluded community members by enabling them to ask questions about taxation, setting spending priorities, and distributing public funds across different levels of government (OECD, 2022). By allowing citizens to participate in the budgeting process, local governments can foster a sense of ownership and responsibility among community members (Wampler B., 2000). Abdi and Abdulrahman (2025) state that by incorporating citizens' perspectives, local authorities can enhance governance effectiveness, improve service delivery, and create a more resilient and inclusive environment. Consequently, they emphasize the importance of institutionalizing participatory practices to promote democratization and achieve sustainable development.

According to the World Bank 2023 report by Davies, Jama, Watanabe, and Bhatti on local governance and federalism in Somalia, the country's local governance is complex and continually evolving, shaped by its distinctive political, historical, and socioeconomic context. The 2012 Provisional Constitution recognizes two main levels of government: the federal government level and the federal member state Level, making the FMS responsible for local government systems. This system comprises regional governors appointed by FMS presidents and more localized structures of districts and villages. Districts are led by Councils that are indirectly elected by clan representatives or FMS-appointed commissioners.

The National Consultative Council's agreed allocation of powers assigned 31 functions to local governments. However, they face several challenges, including fiscal and technical constraints, security concerns, and heavy reliance on donor funding. It needs to be reviewed whether constitutionalizing the local government level would enhance domestic revenue generation and strengthen their capacity. Another option would be to discuss whether, local governments should be integrated into existing intergovernmental platforms, particularly in discussions on fiscal federalism, to ensure coordinated and sustainable state-building efforts

G) Policy Recommendations

The following recommendations could help the successful implementation of fiscal federalism and address identified challenges:

1. Constitutional Review

The ongoing constitutional review process, led by the Federal Parliamentary Oversight Committee and the Independent Constitutional Review and Implementation Commission, should address key public finance issues, including revenue-raising powers, resource sharing, expenditure responsibilities, and public debt and borrowing. Detailed provisions on these matters should be addressed through ordinary legislation and sector-level agreements, ensuring alignment with the principles and guidelines specified in the constitution.

2. Functional Assignment and Revenue Allocation Powers

The proposed allocation of functions and revenue-raising powers between the FGS and the FMS should be thoroughly assessed and further refined to determine which level of government is best suited to collect specific taxes or perform certain functions. This process should consider the legal and institutional framework, as well as technical and financial constraints. Incorporating expert knowledge and best practices from similar federal systems can help define clear competencies and revenue sources for each level of government. To minimize intergovernmental disputes, critical provisions related to the allocation of powers should be explicitly incorporated into the constitution. Revising and improving the existing revenue-sharing arrangements is also necessary to ensure the equitable distribution of resources and prevent fiscal imbalances.

Additionally, the FGS and the FMS should harmonize tax policies and rates to avoid duplication in taxation. This could be achieved through the establishment of an independent constitutionally mandated revenue authority and a revenue allocation commission with representatives from the federal and state governments with the mandate to formulate equitable allocation formulas, improve revenue collection, tackle financial corruption, and foster national unity and cohesion.

3. Intergovernmental Cooperation

Promoting inclusivity and sustainable cooperation among all levels of government is essential for moving the fiscal federalism agenda forward. Formalizing existing intergovernmental platforms is equally important to ensure that their recommendations hold formal status and are effectively implemented. Moreover, building the capacity of subnational entities in the areas of domestic revenue mobilization, public financial management, auditing and reporting, and resource allocation will equip them with the skills and knowledge necessary to implement fiscal federalism reforms.

H) Conclusion

Despite multifaceted and complex challenges, notable progress has been made in advancing Somalia's fiscal federalism. Over the past decade, the FGS and the FMS have established several intergovernmental platforms at various levels, such as the National Consultative Council, the Finance Ministers Fiscal Forum, and the Intergovernmental Fiscal Federalism Technical Committee. These platforms have facilitated discussions on critical national issues, resulting in important agreements and milestones that have propelled Somalia's fiscal federalism agenda forward.

For instance, the Intergovernmental Fiscal Federalism Technical Committee and the Finance Ministers Fiscal Forum, comprising representatives from the FGS and the FMS have achieved key milestones. These include the adoption of a unified chart of accounts, a standardized fiscal reporting format, the introduction of unified Tax identification numbers, and the harmonization of various tax rates. Additionally, involving local governments in intergovernmental platforms is essential to ensuring a coordinated and sustainable process.

Furthermore, the National Consultative Council has proposed sector-based functional assignments that reserved 44 powers to the federal level, shifted 29 powers to the member state level, and assigned 31 responsibilities to the local level, with 19 concurrent powers. They also agreed on revenue allocation powers, granting the FGS authority over taxes affecting macroeconomic stability and redistribution. Nevertheless, these agreements require comprehensive review and revision to account for legal and institutional frameworks, technical and financial capacities, and Somalia's unique context and needs.

In natural resource management, the provisional constitution provides a general framework for ownership and revenue-sharing principles. However, specific details have been left to negotiations between the FGS and the FMS. While recent sector-specific Memorandums of Understanding on petroleum and fisheries signal progress, they lack fundamental principles, clear objectives, and essential provisions, risking disputes over resource management.

Despite these efforts, the practical implementation of fiscal federalism – including revenue and functional assignment, intergovernmental fiscal relations, and resource sharing – remains unclear and a daunting task. Entities often operate semi-autonomously, performing various functions, levying taxes, and managing budgets independently. This fragmented approach underscores the urgent need to address pressing issues and establish a functional fiscal federal system that supports political and economic stability, fosters shared development, and promotes prosperity for all.

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