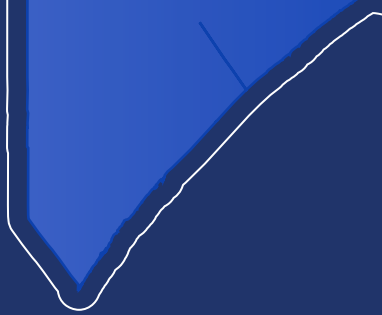


Assessing VAT Implementation in Mogadishu: Legal and Socio-Economic Implications



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Abstract

This study examines the legal and socio-economic implications of implementing Value Added Tax (VAT) in Mogadishu, Somalia. The primary objectives are to assess public awareness and perceptions of VAT, evaluate the legal framework supporting its implementation, and analyse the tax's impact on different socio-economic groups.

A mixed-methods approach was employed, involving a structured survey of 464 residents of Mogadishu segmented by demographics such as age, gender, education level, and occupation. The findings reveal significant public scepticism towards the legality of VAT due to the absence of parliamentary approval and concerns about its regressive nature, which disproportionately impacts low-income households. Despite the heightened awareness of VAT, there remains a substantial gap in understanding its purpose and perceived fairness, with many respondents questioning the adequacy of public services funded by VAT revenues. The study concludes that successful VAT implementation in Mogadishu requires comprehensive legal reforms, increased public education, and enhanced government transparency to foster trust and compliance.

Recommendations include the need for robust stakeholder engagement, the establishment of clear legislative backing, and targeted strategies to mitigate the adverse impacts on vulnerable populations.

Keywords

VAT,
Legal Implications,
Socio-Economic Impacts,
Taxation.

Introduction

The implementation of Value Added Tax (VAT) in Mogadishu marks a pivotal step in Somalia's efforts to rebuild its fiscal landscape and drive economic recovery following decades of conflict and instability, similar to initiatives in other post-conflict nations like Rwanda and Afghanistan (Liu X., 2024).

As a consumption tax levied on goods and services, VAT aims to broaden the tax base, increase government revenue, and formalize the largely informal economy. For Somalia, where public service delivery and fiscal accountability have historically been undermined by weak governance structures, the introduction of VAT represents a crucial mechanism for enhancing government capacity and supporting socio-economic development.

Despite its potential benefits, the implementation of VAT in Mogadishu has been met with considerable challenges and public scepticism. Key concerns include the perceived lack of legal legitimacy due to the absence of parliamentary approval, fears of a regressive impact on low-income households, and doubts about whether increased tax revenues will translate into improved public services. These challenges are exacerbated by Somalia's complex socio-political environment, where trust in government institutions remains tenuous, and where the public's understanding of VAT's purpose and function is limited (Liu X. (2024).

This study aims to assess the legal and socio-economic implications of VAT implementation in Mogadishu by examining public awareness, perceptions of legality, and the broader impact on households and businesses. Specifically, the research seeks to identify gaps in public understanding that may affect compliance and to explore whether VAT is perceived as a fair and effective tool for revenue generation and economic stabilization. Through a mixed-methods approach, involving a survey of 464 residents, this study provides insights into the multifaceted impacts of VAT in a post-conflict setting. By doing so, it aims to inform policymakers and stakeholders about the necessary reforms and engagement strategies to enhance the effectiveness and equity of VAT implementation in Mogadishu.

Background

Value Added Tax (VAT) has become a cornerstone of fiscal policy in many countries worldwide, serving as a crucial instrument for revenue generation and economic modernization, and has shown positive outcomes in countries like China (Liu L., 2024).

Globally, VAT is favored for its efficiency in capturing a broad tax base, reducing reliance on direct taxes, and enhancing government revenues without imposing an excessive burden on production and investment. As a consumption-based tax levied on the value added at each stage of production and distribution, VAT is considered more equitable and less distortionary compared to other forms of taxation. Its widespread adoption, seen in over 160 countries, underscores its perceived effectiveness in stabilizing and expanding public finances.

The adoption of VAT is particularly significant in conflict and post-conflict settings, where rebuilding economic and institutional frameworks is essential for recovery and sustainable development. In such contexts, VAT is often introduced as part of broader economic reforms aimed at formalizing the economy, expanding the tax base, and fostering transparency and accountability in government finances. Countries like Rwanda, Afghanistan, and Iraq have implemented VAT as a strategy to enhance fiscal resilience and reduce dependence on external aid. However, the success of VAT in these environments depends heavily on the establishment of robust legal frameworks, effective administration, and public trust in the government's commitment to using tax revenues for public good.

In Somalia, the introduction of VAT represents an ambitious step towards economic restructuring and recovery after decades of conflict, political instability, and economic fragmentation. Somalia's economy is characterized by significant informality, with a large portion of economic activities occurring outside formal regulatory frameworks. This informality poses substantial challenges for revenue collection, as the government struggles to capture sufficient resources to fund public services and infrastructure. The introduction of VAT is therefore seen as a critical tool for formalizing the economy and improving the government's fiscal capacity.

However, Somalia's specific economic landscape presents unique challenges to VAT implementation. The country's protracted conflict has left it with weakened institutions, limited administrative capacity, and a lack of comprehensive legal frameworks necessary to support effective tax administration. Public scepticism about government transparency and accountability further complicates the situation, as many citizens question whether VAT revenues will be used effectively to improve public services. Moreover, the absence of parliamentary approval for VAT has exacerbated concerns about its legal legitimacy, creating a barrier to public acceptance and compliance.

The socio-economic context of Somalia also complicates VAT implementation. The country's population faces high levels of poverty and economic vulnerability, with limited access to essential services such as healthcare, education, and clean water. The regressive nature of VAT, which disproportionately affects lower-income households that spend a larger share of their income on consumables, raises concerns about the tax's impact on social equity. Survey data from Mogadishu indicates that while there is some awareness of VAT among residents, there are significant misconceptions about its purpose and benefits, leading to fears that the tax may exacerbate existing inequalities rather than alleviate them.

Despite these challenges, VAT has the potential to play a transformative role in Somalia's economic development if implemented effectively. The tax could help diversify government revenue sources, reduce reliance on external aid, and create a more predictable and sustainable fiscal environment. For this to be realized, Somalia must address the legal and administrative hurdles associated with VAT implementation, engage in meaningful public education efforts to build awareness and trust, and design complementary policies to protect vulnerable groups from the regressive impacts of the tax.

In conclusion, VAT's global track record as a reliable revenue-generating mechanism offers valuable lessons for Somalia. However, the country's unique post-conflict context requires tailored approaches that consider its socio-economic realities and institutional constraints. By learning from other conflict-affected countries and adapting best practices to the local environment, Somalia can leverage VAT as a tool not just for revenue generation but also for broader economic stabilization and growth.

Research Questions



01

Legal Justification and Democratic Sanction:

To what extent is the VAT system in Mogadishu perceived as legally justified and democratically sanctioned, and how important is parliamentary approval to public perception of its legitimacy?

02

Impact on Household Finances:

How does VAT affect the financial conditions of households, considering the mixed responses regarding potential improvements in public services versus concerns about increased living costs and uneven burden distribution?

03

Legal and Socio-Economic Ramifications:

What are the immediate legal ramifications and long-term socio-economic impacts of VAT implementation, and how can these be addressed to ensure equitable and effective outcomes?

04

Frameworks for Transparency and Governance:

How can frameworks that prioritize transparency and collaborative governance mitigate public concerns and enhance the overall effectiveness and equity of VAT in Mogadishu?



Methodology

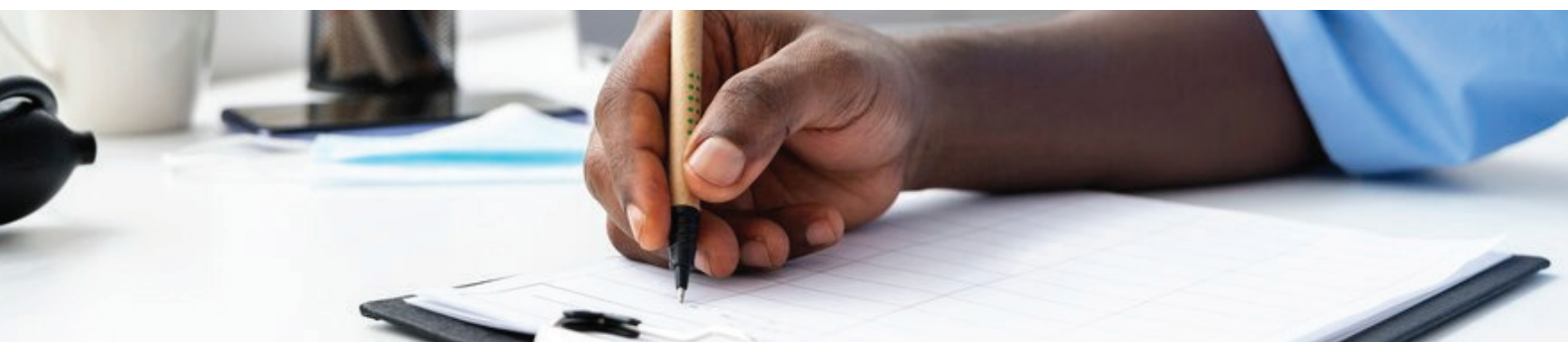
This study employs a mixed-methods approach to comprehensively assess the legal and socio-economic implications of Value Added Tax (VAT) implementation in Mogadishu. The mixed-methods approach combines quantitative data from structured surveys with qualitative insights to provide a nuanced understanding of public perceptions, legal challenges, and the socio-economic impact of VAT. This methodology ensures a robust and holistic analysis, capturing both statistical trends and the contextual factors influencing VAT acceptance and compliance in Somalia



Survey Administration

The primary data collection tool for this study was a structured survey administered to a diverse sample of 464 residents of Mogadishu. The survey was designed to capture a broad range of demographic variables, including age, gender, education level, occupation, and income, to ensure that the sample represented the city's socio-economic diversity. The survey was conducted in person, using trained enumerators who administered the questionnaires in Somali, the local language, to ensure clarity and accessibility for all participants.

The survey targeted a balanced mix of respondents from various neighbourhoods across Mogadishu, including both urban and peri-urban areas. This approach aimed to reflect the different economic and social conditions within the city and to capture the diverse perspectives on VAT implementation. To enhance the reliability of the data, respondents were selected through a stratified random sampling method, which allowed for proportional representation of different demographic groups.





Data Collection

The data collection process spanned four weeks, during which the enumerators collected responses on a range of topics related to VAT. The survey comprised multiple sections, including questions on awareness and understanding of VAT, perceptions of its legality and fairness, the perceived impact on household finances, and views on the effectiveness of VAT in funding public services. Additionally, the survey included specific questions targeting businesses, particularly SMEs, to explore the challenges they face in complying with VAT regulations.

To complement the quantitative survey data, the study also incorporated qualitative data collection through focus group discussions and key informant interviews with business owners, legal experts, government officials, and representatives from civil society organizations. These qualitative insights provided context and depth to the survey findings, helping to explain the underlying reasons behind public perceptions and attitudes toward VAT.



Analysis Techniques

The data analysis process involved both quantitative and qualitative techniques to ensure a comprehensive interpretation of the findings. For the quantitative survey data, descriptive statistics were used to summarize the demographic characteristics of the sample and to identify key trends in awareness, perceptions, and the socio-economic impact of VAT. Cross-tabulations were conducted to explore the relationships between demographic variables and specific survey responses, such as the correlation between income levels and perceptions of VAT's fairness.

Inferential statistics, including chi-square tests, were employed to assess the statistical significance of differences in responses across various demographic groups. This analysis helped to identify whether certain factors, such as income or education level, were significantly associated with perceptions of VAT's legality or its impact on household finances. Additionally, regression analysis was used to examine the predictors of VAT compliance, providing insights into the factors that influence the likelihood of businesses and individuals adhering to VAT regulations.

The qualitative data from focus group discussions and interviews were analyzed using thematic analysis. This approach involved coding the qualitative data to identify recurring themes and patterns related to VAT implementation, such as concerns about the tax's legal legitimacy, its impact on consumer prices, and the perceived disconnect between VAT revenues and public service improvements. These qualitative insights were integrated with the quantitative findings to provide a richer understanding of the socio-economic landscape shaped by VAT.

Data Validation and Reliability

To ensure the reliability and validity of the data, several measures were implemented throughout the research process. The survey instrument was pre-tested in a pilot study with a small sample of respondents to identify any ambiguities or biases in the questions. Feedback from the pilot study was used to refine the survey and improve its clarity and comprehensiveness. Enumerators received training on ethical considerations, such as obtaining informed consent from respondents and ensuring the confidentiality of their responses. Data validation was conducted through cross-checks between the survey responses and the qualitative data to identify any inconsistencies or discrepancies. Triangulation of data sources, including survey results, focus group discussions, and interviews, helped to corroborate findings and enhance the robustness of the conclusions drawn from the study.

Ethical Considerations

Ethical considerations were a key component of the research methodology. All participants were informed about the purpose of the study, their rights as respondents, and the measures taken to protect their privacy and confidentiality. Participation in the survey was voluntary, and respondents were assured that their answers would be used solely for research purposes. The study adhered to ethical guidelines for conducting research in post-conflict settings, with particular attention to ensuring that the data collection process was sensitive to the local context and did not exacerbate existing vulnerabilities.

The mixed-methods approach used in this study provided a comprehensive framework for exploring the legal and socio-economic implications of VAT implementation in Mogadishu. By integrating quantitative and qualitative data, the methodology allowed for a detailed analysis of public perceptions, the challenges faced by businesses, and the broader impact of VAT on households and public services. This approach ensured that the findings were grounded in the lived experiences of Mogadishu's residents, offering valuable insights for policymakers and stakeholders seeking to enhance the effectiveness and equity of VAT in Somalia.

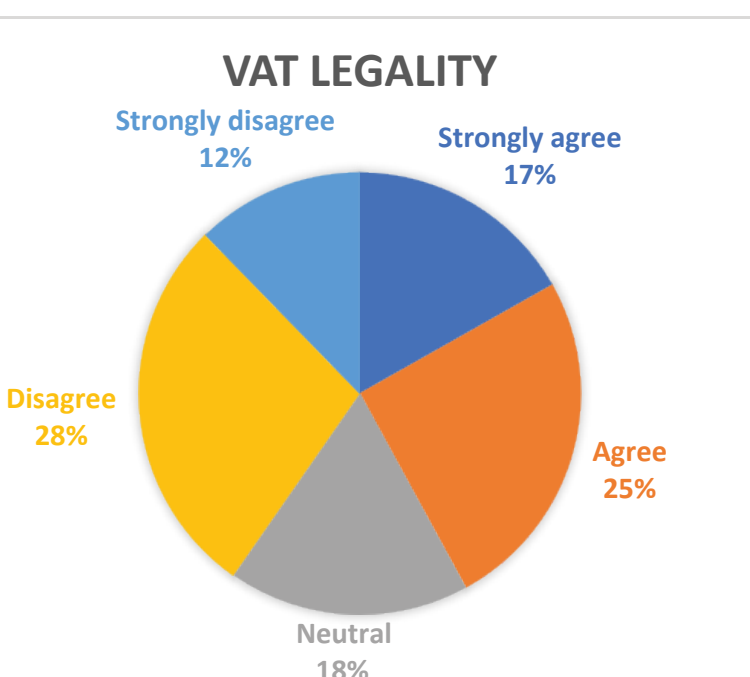
Legal Framework of VAT in Somalia

The legal framework underpinning the implementation of Value Added Tax (VAT) in Somalia is critical to its acceptance, effectiveness, and overall success. This mirrors global best practices where strong legal backing, including parliamentary approval, is essential for the legitimacy of fiscal policies (Kekere A. I. & Preye T. E., 2024).

VAT, as a tax policy, requires a robust legal foundation that not only establishes its legitimacy but also outlines the mechanisms for its administration, compliance, and enforcement. In many countries, the introduction of VAT is accompanied by comprehensive legislative processes, including parliamentary approval, to ensure that the tax is legally sanctioned and aligned with the broader fiscal policy goals of the state. This legal endorsement is crucial in building public trust and securing compliance, especially in contexts where governance and rule of law are fragile.

In Somalia, the legal basis for VAT implementation has been a contentious issue, with significant debate surrounding the need for parliamentary approval. The VAT was introduced as part of broader fiscal reforms by the Ministry of Finance, aiming to increase government revenue and formalize the economy. However, the lack of explicit parliamentary approval has raised questions about the legality and legitimacy of the tax. This absence of a clear legislative mandate undermines public confidence in the VAT system, as many stakeholders believe that parliamentary scrutiny is essential to ensure that the tax is just, equitable, and in line with national interests.

Figure 1: *The respondents feedback of the introduction of VAT's legal justification*



As a recent survey conducted with 464 respondents indicated, public perceptions of VAT's legality in Mogadishu are mixed. Approximately 45% of respondents (17% strongly agree, 25% agree) believe VAT is legal, while 40% (28% disagree, 12% strongly disagree) view it as illegitimate. Additionally, 18% of respondents remain neutral, highlighting significant public uncertainty and divided opinions on the legal basis of VAT implementation.

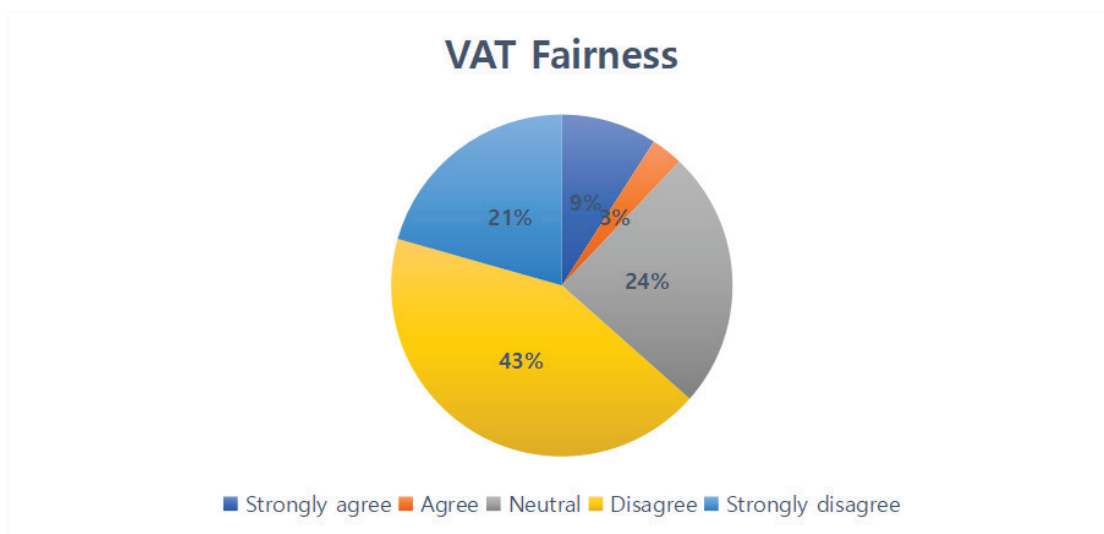
The necessity of parliamentary approval for VAT implementation cannot be understated, especially in a post-conflict setting like Somalia, where legal and institutional frameworks are still being rebuilt. Parliamentary approval serves multiple functions: it legitimizes the tax in the eyes of the public, provides a platform for debate and stakeholder engagement, and establishes a legal foundation that can be used to resolve disputes and ensure compliance. Without such approval, VAT is perceived as an executive directive rather than a democratically sanctioned fiscal policy, leading to scepticism and resistance from taxpayers.

Comparatively, international standards for VAT implementation emphasize the importance of legal clarity and procedural legitimacy. In most countries, VAT laws are passed through legislative bodies, ensuring that the tax is subject to public debate and scrutiny. This process not only reinforces the tax's legal standing but also allows for the incorporation of feedback from various stakeholders, including businesses, civil society, and the general public. For instance, countries like Rwanda and Ghana, which have successfully implemented VAT, did so with strong legal frameworks that included parliamentary approval and comprehensive regulatory guidelines.

Furthermore, international best practices highlight the importance of aligning VAT implementation with established legal principles and international agreements. The World Bank and the International Monetary Fund (IMF) often provide technical assistance to countries adopting VAT, recommending legal frameworks that are transparent, enforceable, and in compliance with international tax standards. These frameworks typically include provisions for taxpayer rights, dispute resolution mechanisms, and clear guidelines for tax administration and enforcement.

In Somalia, the lack of a comprehensive legal framework for VAT has led to several challenges. Survey data indicates that a significant portion of Mogadishu's residents are unsure about the legality of VAT, with many expressing the belief that parliamentary approval should have been secured before its implementation. This sentiment is reflected in widespread concerns about the fairness and transparency of the tax system, particularly given the country's history of weak governance and public distrust in governmental institutions.

Figure 2: Responses to the question "Do you believe that VAT is being applied fairly across different regions of Somalia?"



"VAT Fairness" reflects public opinion on the fairness of VAT in Mogadishu. A significant majority, 52% (43% strongly disagree, 9% disagree), perceive VAT as unfair, while 27% (24% neutral, 3% agree) hold a neutral or positive view. These findings suggest that VAT is widely seen as inequitable by a substantial portion of the respondents.

Addressing these legal challenges is essential for enhancing the effectiveness of VAT in Somalia. Establishing a clear legal basis through parliamentary approval would not only legitimize the tax but also create a more predictable and stable fiscal environment. Moreover, aligning Somalia's VAT framework with international standards could help mitigate legal ambiguities and enhance the credibility of the tax system. This alignment would involve enacting comprehensive VAT legislation that details the scope of the tax, exemptions, administrative procedures, and penalties for non-compliance.

To achieve this, Somalia's government needs to engage with parliamentarians, legal experts, and international partners to draft and pass VAT legislation that reflects the country's specific needs and circumstances. This process should include public consultations to ensure that the VAT system is perceived as fair and transparent by all stakeholders. By establishing a solid legal foundation, Somalia can enhance public confidence in VAT, improve compliance, and ultimately achieve the revenue and economic stabilization goals that underpin its implementation.

In summary, the legal framework for VAT in Somalia is currently insufficient to fully support the tax's implementation and acceptance. The absence of parliamentary approval has created a significant barrier to public trust and compliance. By addressing these legal deficiencies and aligning with international standards, Somalia can strengthen its VAT system, ensuring that it contributes effectively to the country's fiscal recovery and development objectives.

Socio-Economic Implications of VAT

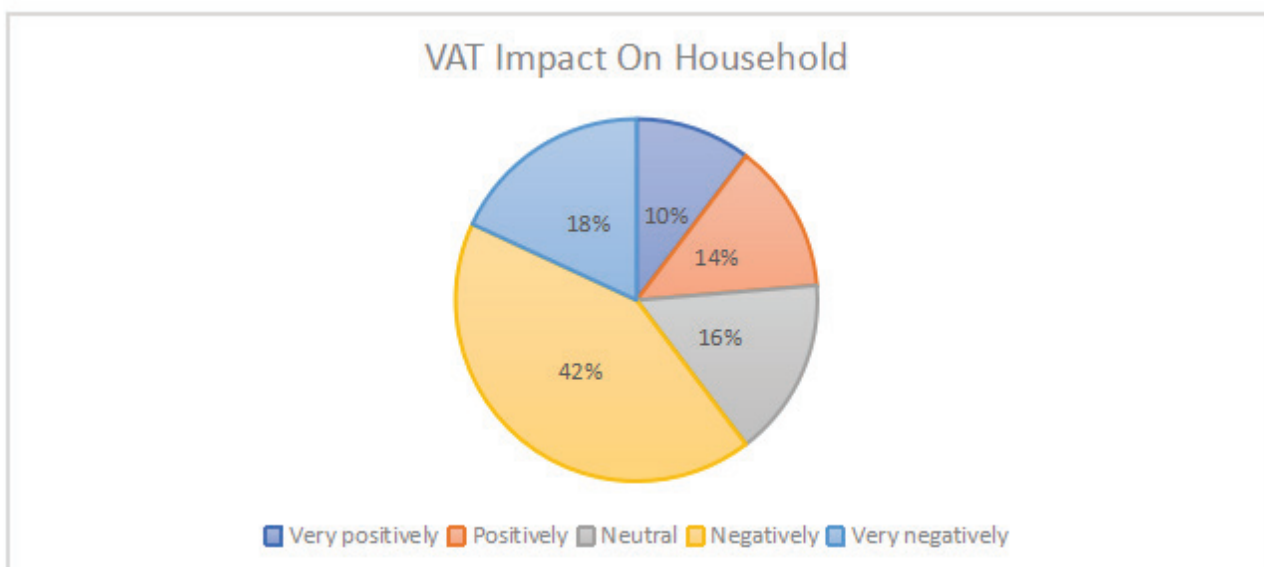
The introduction of Value Added Tax (VAT) in Mogadishu has significant socio-economic implications, affecting households, businesses, consumer prices, and public services. While VAT is intended to increase government revenue and formalize the economy, its impact on different segments of society varies, often reflecting broader economic inequalities and vulnerabilities. This section explores these impacts, drawing on survey data to provide insights into public perceptions and the practical effects of VAT on Somalia's socio-economic landscape.

Impact on Households

One of the primary concerns regarding VAT is its regressive nature, disproportionately affecting lower-income households that spend a larger portion of their income on consumable goods subject to VAT, as observed in other developing economies (Usaini M. & Ashir M. S., 2021).

Survey data from Mogadishu reveals that a significant number of households perceive VAT as an additional financial burden, exacerbating the cost of living in a city already grappling with high poverty rates. According to the survey, over 60% of respondents reported concerns that VAT would increase their daily expenses without corresponding improvements in public services.

Figure 3: *Socio-Economic Implications of VAT, Impact on Household; How has the introduction of VAT affected your household's financial situation?*



The impact on households is particularly acute among vulnerable populations, including low-income families, informal sector workers, and those with limited access to basic services. The regressive effect of VAT can lead to reduced purchasing power and increased financial strain on these groups, potentially pushing some below the poverty line. The survey indicated that nearly half of the respondents felt that VAT implementation was unfair, with many citing the absence of sufficient compensatory measures, such as targeted subsidies or exemptions for essential goods, to mitigate the impact on low-income households.

Impact on Businesses, Particularly SMEs

Small and Medium Enterprises (SMEs) form the backbone of Mogadishu's economy, providing employment and essential goods and services. However, the introduction of VAT poses challenges for these businesses, particularly those operating in the informal sector or with limited administrative capacity. Survey results show that many SMEs are concerned about the additional compliance costs associated with VAT, such as the need for accounting systems, VAT registration, and regular tax filings.

For SMEs, the administrative burden of VAT can be significant, particularly in a context where many businesses lack formal bookkeeping practices and rely on cash transactions. The survey data indicates that 40% of business respondents cited difficulties in understanding and complying with VAT regulations, leading to fears of potential fines and penalties. Additionally, SMEs often face liquidity constraints, and the need to pay VAT upfront on sales can exacerbate cash flow challenges, affecting their ability to sustain operations.

Moreover, businesses in Mogadishu are concerned about the competitive disadvantages posed by VAT, especially when competing with informal businesses that do not comply with VAT regulations. This uneven playing field can discourage formalization and reduce the overall effectiveness of VAT in broadening the tax base. To address these challenges, the government needs to provide targeted support to SMEs, including simplified VAT processes, capacity-building initiatives, and incentives for compliance.

Impact on Businesses, Particularly SMEs

VAT, as a consumption tax, directly impacts consumer prices by increasing the cost of goods and services. This effect is felt across the board, but it is particularly pronounced in essential goods that constitute a significant share of household spending. Survey data from Mogadishu indicates that 55% of respondents have observed an increase in prices since the introduction of VAT, with food, and household items being the most affected categories.

The rise in consumer prices can reduce the purchasing power of households, particularly among the poorest segments of the population. This inflationary effect of VAT can lead to reduced consumption and lower overall demand, which in turn can have a negative impact on economic growth. Furthermore, the perception of VAT as a driver of higher prices contributes to its unpopularity, with many residents feeling that the tax exacerbates the economic hardships they already face.

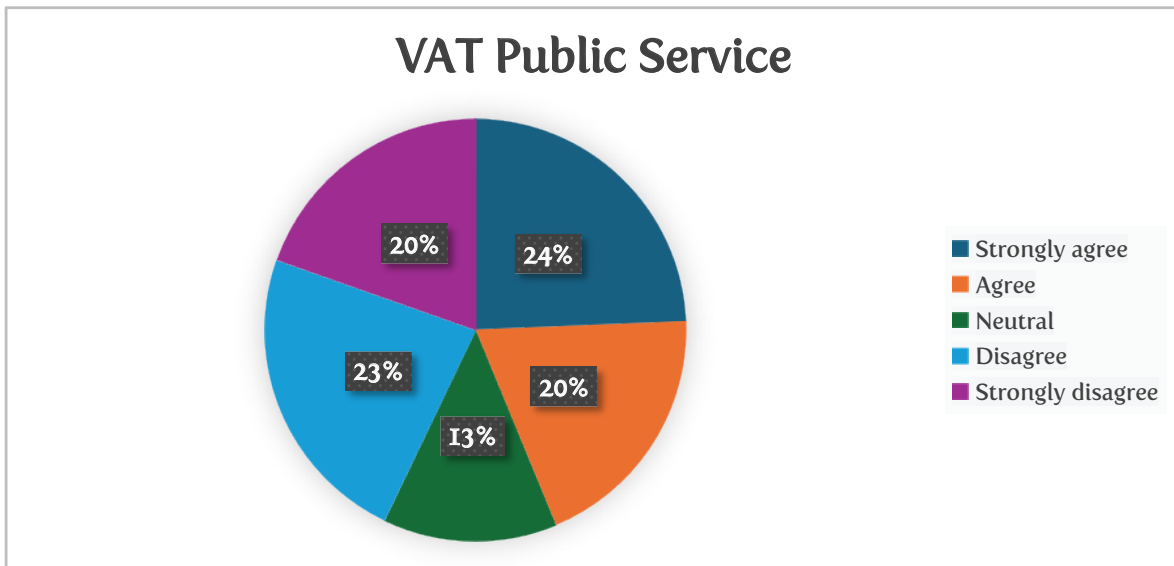
To mitigate the inflationary effects of VAT, the government could consider measures such as zero-rating essential goods or providing targeted financial support to vulnerable households. Additionally, public communication efforts to explain the role of VAT in supporting public services could help to improve public perceptions and acceptance of the tax.

Impact on Public Services

One of the key arguments for the implementation of VAT is its potential to generate additional revenue that can be used to improve public services. In Somalia, where public service delivery has historically been weak, VAT represents an opportunity to enhance the provision of healthcare, education, infrastructure, and other essential services. However, the realization of these benefits depends on the effective allocation and management of VAT revenues

Survey results suggest that while there is some optimism about the potential for VAT to improve public services, there is also significant scepticism. Approximately 44% of respondents expressed doubt that VAT revenues would be used effectively, citing concerns about corruption, mismanagement, and a lack of transparency in government spending. This mistrust is a major barrier to the public's willingness to comply with VAT, as many citizens do not believe that the tax will lead to tangible improvements in their lives.

Figure 4: Do you think the implementation of VAT will improve public service delivery in Mogadishu?



The figure above on VAT impact on Public Service shows public opinions on whether VAT revenues are effectively used for public services in Mogadishu. Approximately 44% of respondents (24% strongly agree, 20% agree) believe that VAT supports public services, while 43% (23% disagree, 20% strongly disagree) feel otherwise. A smaller group, 13%, remains neutral, reflecting mixed views on the impact of VAT on public services.

To build public trust and support for VAT, the government must prioritize transparency and accountability in the management of VAT revenues. This includes clear communication about how VAT funds are being used, regular public reporting on revenue and expenditure, and visible improvements in public services that can be directly linked to VAT funding. Engaging citizens in budgetary processes and ensuring that VAT revenues are allocated to priority areas can help to strengthen the social contract between the government and its citizens.

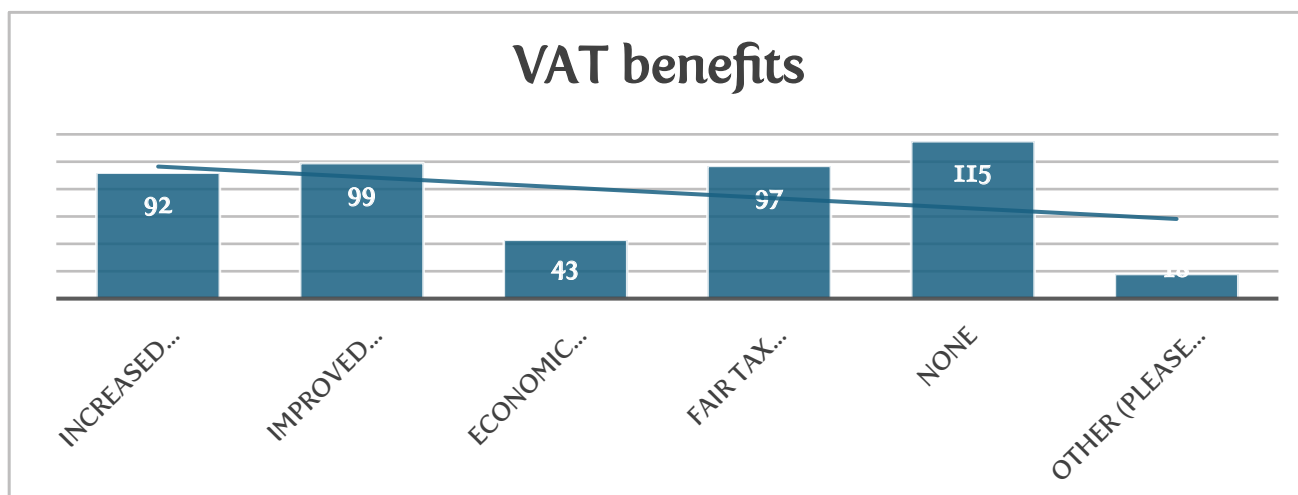
Public Perceptions of VAT

Public perception plays a crucial role in the success of any tax system, and VAT in Mogadishu is no exception. The public's understanding of tax systems and their alignment with government accountability significantly impacts compliance rates (Fuest C., 2024).

The survey data indicates that while there is a general awareness of VAT, understanding of its purpose and benefits remains low. Only 36% of respondents felt they had a good understanding of how VAT works, and many expressed confusions about the specifics of the tax and its intended role in supporting public services.

Misperceptions about VAT's fairness and effectiveness are common, with a large portion of the public viewing it as an unfair and burdensome tax. This sentiment is reinforced by the lack of visible improvements in public services, which has led to a disconnect between the tax collected and the benefits perceived by the public. Addressing these perception gaps is essential for improving compliance and fostering a more positive view of VAT among Mogadishu's residents.

Figure 5: *What are the main benefits of implementing VAT in Somalia?*



The above figure on VAT Benefits illustrates respondents' views on the benefits of VAT in Somalia. The most acknowledged benefits are improved public services (99 responses) and increased government revenue (92 responses). However, a significant portion of respondents (115) believe there are no benefits, highlighting scepticism, while fewer see benefits like fair tax distribution (97) and economic stability (43). Only a small number (18) identified other benefits.

In conclusion, the socio-economic implications of VAT in Mogadishu are complex and multifaceted, affecting households, businesses, consumer prices, and public services in various ways. While VAT has the potential to support economic recovery and enhance public service delivery, its success depends on addressing the challenges identified in this study. Key recommendations include targeted measures to protect vulnerable households, support for SMEs, transparent management of VAT revenues, and comprehensive public education efforts to build understanding and trust in the tax system. By taking these steps, Somalia can maximize the benefits of VAT and create a more equitable and resilient economy.

Public Perceptions of VAT

The findings from this study reveal a complex landscape of public perceptions and socio-economic impacts associated with VAT implementation in Mogadishu. While VAT has the potential to enhance government revenue and formalize Somalia's economy, the study highlights significant challenges that must be addressed to ensure its success. This discussion section interprets these findings in the context of international experiences with VAT, drawing comparisons with other nations and outlining broader implications for policy and practice in Somalia.

Public Perceptions of VAT

The survey data indicates that while there is a general awareness of VAT among Mogadishu's residents, a substantial portion of the population harbors concerns about its legality, fairness, and socio-economic impact. Key findings reveal that a lack of parliamentary approval has undermined the perceived legitimacy of VAT, with many respondents questioning the legal basis of the tax. This skepticism is a critical barrier to compliance, as trust in the government's fiscal policies is essential for effective tax administration, particularly in post-conflict settings where institutional credibility is fragile.

The regressive nature of VAT, which disproportionately impacts low-income households, is another major concern highlighted in the findings. Many respondents reported that VAT increases their cost of living without providing commensurate improvements in public services. This perception is compounded by the limited visibility of VAT's benefits, such as enhanced public infrastructure or improved social services, which are crucial for building public support for the tax.

The findings underscore the need for targeted measures to mitigate the impact of VAT on vulnerable populations, including exemptions for essential goods or direct financial support for low-income families.

For businesses, particularly SMEs, the administrative burden of VAT compliance poses a significant challenge. The survey revealed that many SMEs struggle with the additional costs and complexities associated with VAT registration and reporting. This is especially problematic in Somalia's informal economy, where many businesses lack formal bookkeeping practices and operate on thin margins. These findings suggest that simplifying VAT procedures and providing capacity-building support for SMEs could improve compliance rates and reduce the negative impact on small businesses.

Comparison with Other Nations' Experiences

The challenges identified in Somalia's VAT implementation are not unique and reflect broader patterns observed in other countries, particularly those recovering from conflict or economic instability. For example, Rwanda's successful VAT implementation involved a comprehensive legal framework, extensive public education campaigns, and a phased approach that allowed businesses time to adapt. Rwanda also focused on building administrative capacity within the tax authority, which helped to streamline VAT processes and enhance compliance. These efforts contributed to the public's acceptance of VAT and its effectiveness as a revenue-generating tool.

Similarly, in post-conflict Afghanistan, VAT implementation faced significant hurdles, including public mistrust and administrative weaknesses. However, Afghanistan's strategy to involve stakeholders in the design of VAT policies, alongside international support for capacity building, helped to mitigate some of these challenges. This participatory approach ensured that VAT policies were more attuned to local needs and contexts, enhancing their acceptance and effectiveness.

These international experiences offer valuable lessons for Somalia. Key among them is the importance of securing a strong legal foundation for VAT, which in many successful cases involved clear legislative approval and regulatory frameworks. The establishment of a legal mandate through parliamentary processes not only legitimizes the tax but also provides a platform for public debate and input, which can help to address concerns and build broader support.

Additionally, the comparative analysis emphasizes the need for robust public education and communication strategies to enhance understanding and acceptance of VAT. Countries like Kenya and Uganda have demonstrated the benefits of public awareness campaigns that explain the purpose of VAT, how it funds public services, and the mechanisms in place to ensure transparency and accountability. For Somalia, similar efforts could help to bridge the gap between VAT implementation and public expectations, fostering a more supportive environment for compliance.

Broader Implications for Policy and Practice in Somalia

The findings of this study have several broader implications for VAT policy and practice in Somalia. Firstly, there is a clear need for legal reforms to address the current gaps in VAT's legislative framework. Parliamentary approval should be sought to reinforce the tax's legal basis and to involve lawmakers in the process of refining VAT policies. This approach would not only enhance the perceived legitimacy of VAT but also provide an opportunity to align the tax with broader socio-economic goals, such as poverty reduction and inclusive growth.

Secondly, targeted measures are needed to address the regressive impact of VAT on low-income households. Policymakers should consider implementing exemptions for basic goods, providing subsidies, or introducing progressive elements within the VAT system to reduce the burden on the most vulnerable populations. This could include differential rates for essential versus luxury goods, thereby protecting the purchasing power of low-income families while still achieving revenue goals.

Thirdly, for SMEs, simplifying VAT compliance processes and reducing administrative burdens are essential steps toward improving adherence to the tax. This could involve developing user-friendly digital platforms for VAT filing, offering training and support to small business owners, and creating a more streamlined registration process. By making VAT compliance more accessible, the government can encourage formalization and expand the tax base.

Lastly, enhancing transparency and accountability in the use of VAT revenues is crucial for building public trust. The government should prioritize clear and regular reporting on how VAT funds are allocated and used, with a focus on linking these revenues to visible improvements in public services. Engaging citizens in budgetary decisions and providing platforms for public feedback can further strengthen the social contract and encourage a sense of shared responsibility in national development.

The implementation of VAT in Mogadishu presents both opportunities and challenges for Somalia's economic recovery and fiscal sustainability. The findings of this study highlight the need for a multi-faceted approach that addresses legal, administrative, and socio-economic barriers to effective VAT implementation. By learning from the experiences of other nations and adapting best practices to the Somali context, policymakers can enhance the impact of VAT, ensuring it serves as a tool for inclusive growth and public welfare. Building public trust, simplifying compliance, and ensuring the equitable distribution of VAT's benefits are critical steps toward achieving these goals, paving the way for a more resilient and prosperous Somalia.

Recommendations

Based on the findings of this study, several actionable recommendations are proposed to address the challenges associated with VAT implementation in Mogadishu. These include drawing on best practices from global models such as those recommended by the World Bank for improving business climates and tax compliance (World Bank, 2017).

These recommendations focus on legal reforms, stakeholder engagement, public education, and transparent governance, aimed at enhancing the effectiveness and equity of VAT in Somalia.

01

Legal Reforms

Secure Parliamentary Approval:

To enhance the legitimacy of VAT, the Somali government should prioritize securing explicit parliamentary approval for VAT implementation. This legislative endorsement will provide a stronger legal foundation for VAT, address public concerns about its legitimacy, and foster compliance.

Develop Comprehensive VAT Legislation:

Draft and enact comprehensive VAT legislation that clearly outlines the scope of the tax, exemptions, administrative procedures, penalties for non-compliance, and mechanisms for dispute resolution. This legislation should align with international best practices and be adapted to the specific socio-economic context of Somalia.

Establish Legal Protections for Vulnerable Groups: Include provisions in the VAT legislation that protect low-income households from the regressive impacts of the tax, such as exemptions for essential goods and services, or the introduction of a zero-rate VAT on basic necessities.

02

Stakeholder Engagement

Inclusive Policy Design:




Engage a broad range of stakeholders, including representatives from the private sector, civil society, and marginalized communities, in the design and refinement of VAT policies. This inclusive approach will ensure that VAT policies are responsive to the needs and concerns of all segments of society, enhancing public acceptance and compliance.

Strengthen Public-Private Partnerships:

Foster partnerships with business associations, especially those representing SMEs, to co-create solutions for VAT compliance challenges. This could include developing sector-specific guidelines, providing technical support, and creating forums for ongoing dialogue between the government and the business community.

Establish a VAT Advisory Committee:

Create a VAT Advisory Committee comprising legal experts, economists, business leaders, and civil society representatives to provide continuous feedback on VAT implementation, address emerging challenges, and propose necessary adjustments to the tax system.

-  **Launch Public Awareness Campaigns:** Implement comprehensive public awareness campaigns to educate citizens about VAT, its purpose, benefits, and how it contributes to public services. Utilize multiple communication channels, including radio, television, social media, and community outreach, to reach diverse audiences and improve understanding of VAT.
-  **Develop Educational Resources:** Create easy-to-understand educational materials, such as brochures, infographics, and online tutorials, that explain VAT processes, rights and responsibilities of taxpayers, and available exemptions. These resources should be tailored to different literacy levels and languages spoken in Somalia.
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-  **Engage Community Leaders and Influencers:** Partner with local community leaders, religious figures, and influencers to disseminate information about VAT and to build trust within communities. These individuals can serve as trusted voices that help demystify VAT and encourage compliance.

Enhance Transparency in VAT Revenue Allocation: Establish transparent mechanisms for tracking and reporting VAT revenues and their allocation to public services. Regularly publish detailed reports on how VAT funds are being utilized, with a focus on linking revenue collection to visible improvements in sectors such as healthcare, education, and infrastructure.

Strengthen Accountability Measures: Implement robust accountability measures to ensure that VAT revenues are managed efficiently and effectively. This could include independent audits of VAT collections and expenditures, as well as mechanisms for public feedback and oversight to prevent misuse of funds.

Establish Clear Communication on VAT Revenue Use: Regularly update the public on the outcomes and impacts of VAT-funded projects through government websites, press releases, and public forums. Highlighting successful projects funded by VAT can help build public confidence in the tax system and demonstrate the tangible benefits of compliance.

Simplify VAT Compliance Processes:

Simplify VAT registration, filing, and payment processes to reduce the administrative burden on SMEs. Consider implementing user-friendly digital platforms that streamline VAT-related tasks and provide technical assistance to businesses struggling with compliance.

Provide Capacity-Building Support: Offer training and capacity-building programs for SMEs, focusing on VAT compliance, bookkeeping, and financial management. These programs can be delivered in partnership with business associations, financial institutions, and international development organizations.

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Encourage Formalization of Informal Businesses: Develop incentives for informal businesses to formalize and register for VAT, such as reduced initial tax rates, technical support, and access to financial services. Formalization can help expand the tax base and improve the overall effectiveness of VAT.

Implement Targeted Subsidies or Social Safety Nets: To counteract the regressive effects of VAT, the government should consider implementing targeted subsidies or social safety nets for low-income households. This could include direct cash transfers, food vouchers, or reduced VAT rates on essential goods and services.

Monitor and Evaluate Socio-Economic Impacts: Establish a system for ongoing monitoring and evaluation of the socio-economic impacts of VAT. Use data from household surveys, economic indicators, and stakeholder feedback to assess the effectiveness of VAT policies and make necessary adjustments to ensure that the tax does not exacerbate poverty or inequality.

Implementing these recommendations requires a coordinated and sustained effort from the Somali government, in collaboration with stakeholders across society. By addressing the legal, administrative, and socio-economic challenges identified in this study, Somalia can enhance the effectiveness of VAT as a tool for revenue generation and economic stabilization. Prioritizing transparency, inclusivity, and public engagement will be key to building a VAT system that is fair, efficient, and supportive of Somalia's long-term development goals.

Conclusions

This study provides a comprehensive examination of the legal and socio-economic implications of Value Added Tax (VAT) implementation in Mogadishu, highlighting critical insights into the challenges and opportunities associated with this fiscal policy. VAT, introduced as part of broader economic reforms, has the potential to significantly enhance government revenue, formalize the economy, and improve public service delivery in Somalia. However, its success is contingent upon addressing several key issues identified in this study.

The findings reveal that the lack of parliamentary approval for VAT has undermined its perceived legitimacy among the public. Many respondents view the tax as an executive directive rather than a democratically sanctioned policy, raising concerns about its legal foundation and fairness.

This lack of a clear legal mandate has fuelled scepticism and resistance, highlighting the urgent need for robust legal frameworks to support VAT implementation. Securing explicit parliamentary approval and enacting comprehensive VAT legislation are essential steps toward establishing the tax's legitimacy and building public confidence.

From a socio-economic perspective, the study underscores the regressive impact of VAT on low-income households, who are disproportionately affected by the increased cost of essential goods and services. The survey data indicates widespread concerns that VAT exacerbates the financial burden on vulnerable populations without delivering corresponding improvements in public services. Addressing these concerns requires targeted measures to protect low-income families, such as exemptions for basic goods, targeted subsidies, or progressive elements within the VAT system.

For businesses, particularly SMEs, VAT presents significant administrative challenges, including compliance costs and the complexity of tax registration and reporting. Many SMEs, operating in an already challenging economic environment, face difficulties in adapting to the requirements of VAT, which can hinder their growth and sustainability. Simplifying VAT processes, providing capacity-building support, and creating incentives for formalization are critical strategies to enhance compliance and reduce the negative impact on small businesses.

The study also highlights the importance of public perception in the success of VAT. Effective VAT implementation hinges not only on the legal and administrative aspects but also on the public's understanding and acceptance of the tax. The findings reveal a substantial gap in public awareness and understanding of VAT, with many residents expressing confusion about its purpose and benefits. Comprehensive public education campaigns, transparent communication about the use of VAT revenues, and visible improvements in public services are essential for bridging this perception gap and fostering a supportive environment for compliance.

Comparative analysis with other nations' experiences demonstrates that successful VAT implementation often involves a multi-faceted approach that includes legal reforms, stakeholder engagement, and robust public education efforts. Countries like Rwanda and Afghanistan, which have faced similar post-conflict challenges, have shown that inclusive policy design, strong legal frameworks, and continuous public dialogue are critical to gaining public trust and achieving fiscal sustainability.

In conclusion, the implementation of VAT in Mogadishu offers significant potential for advancing Somalia's economic recovery and development.

However, realizing these benefits requires concerted efforts to address the legal, socio-economic, and governance challenges identified in this study. The Somali government must prioritize the establishment of a clear and inclusive legal framework for VAT, engage stakeholders in meaningful dialogue, and invest in public education to build understanding and trust. By adopting these strategies, Somalia can create a VAT system that not only generates revenue but also supports equitable economic growth and improved public service delivery, ultimately contributing to a more resilient and prosperous nation.

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