

Transforming Somalia's Public Financial Management:

Reforms, Federalism, and Economic Resilience
in a Post-Conflict State



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Abstract

Somalia's public financial management (PFM) reforms over the past decade illustrate the challenges and opportunities of rebuilding state institutions in a post-conflict context. This study examines the evolution of PFM reforms in Somalia from their formal initiation in 2013 to 2024, focusing on governance enhancements, fiscal federalism dynamics, the adoption of digital financial tools, alignment with international best practices, and the economic impacts of these reforms. A mixed-methods approach is employed, combining qualitative analysis of policy documents and literature with quantitative examination of fiscal data. The findings show that Somalia has made notable progress in establishing a PFM legal framework (including a 2019 PFM Act and related laws), implementing financial management information systems and a Treasury Single Account, and adopting international standards like the International Public Sector Accounting Standards (IPSAS). These reforms have improved fiscal discipline and transparency, evidenced by the publication of audited federal accounts and a rise in domestic revenue collection. However, Somalia's PFM system continues to face significant challenges: intergovernmental fiscal arrangements remain only partially resolved, domestic revenue is low at about 5% of GDP, and capacity constraints persist at sub-national levels. Comparative analysis with other post-conflict countries (e.g., Afghanistan, Liberia, Sierra Leone) indicates that sustained political commitment—often driven by external incentives such as debt relief—and a focus on basic PFM controls have been essential to progress. The discussion highlights policy implications for Somalia, including the urgent need to formalize fiscal federalism agreements, strengthen accountability institutions, and ensure PFM reforms translate into improved public services. The paper concludes with recommendations to consolidate gains (such as broadening the tax base, enhancing budgetary oversight, and leveraging digital tools for efficiency) and outlines priority actions to achieve a resilient, transparent, and inclusive PFM system that can underpin Somalia's broader state-building and economic development goals.

Executive Summary

Somalia's journey to rebuild its public financial management institutions offers critical insights into how a fragile post-conflict state can re-establish fiscal stability and accountability. This executive summary outlines the study's objectives, methodology, key findings across thematic areas, and principal recommendations.

Background and Objectives: After two decades of state collapse, Somalia's federal government began reforming its fiscal systems in 2013 as part of a broader state-building agenda. These PFM reforms aim to restore government functionality, improve service delivery, and regain trust from citizens and international partners. This paper analyzes Somalia's PFM reform progress in five areas: (1) governance and legal frameworks, (2) fiscal federalism and intergovernmental finance, (3) adoption of digital tools (e.g., FMIS, TSA) for financial management, (4) alignment with international best practices, and (5) economic impacts of PFM reforms. It also compares Somalia's experience with other post-conflict countries to draw lessons and policy implications.

Methodology: The research uses a qualitative case study approach supported by quantitative data analysis. Key sources include Somali government documents (such as Budget Outlook Papers, the National Economic Council's reports, and the PFM Reform Action Plan), international financial institution reports (IMF, World Bank), and academic literature on PFM in fragile states. Fiscal data (e.g., revenue, expenditure, debt) were analyzed to quantify economic outcomes of reforms. Analytical frameworks such as the Public Expenditure and Financial Accountability (PEFA) performance indicators and the classic PFM objectives (aggregate fiscal discipline, allocative efficiency, operational efficiency) guided the evaluation. Comparative analysis was conducted by reviewing PFM reform experiences in other post-conflict settings.

Key Findings:

- **Governance and Legal Framework:** Somalia has established core PFM laws and institutions to strengthen financial governance. A Public Financial Management Act was enacted in 2019, accompanied by detailed financial regulations approved in 2022 to implement its provisions. A Public Procurement, Concessions and Disposal Act (2019) and other laws (e.g., an Extractive Industries revenue law in 2023) were also passed, creating a more robust legal foundation for managing public resources. The Office of the Auditor General has published audited government financial statements for four consecutive years (2019–2022), marking a significant improvement in transparency. Together, these measures have enhanced fiscal accountability and enabled Somalia to meet important benchmarks (for example, fulfilling governance-related triggers under the HIPC debt relief program). However, enforcing these laws and building institutional capacity remains an ongoing challenge.

- **Fiscal Federalism:** Clarifying the fiscal relationship between Somalia’s federal government and its Federal Member States (FMS) remains an urgent yet incomplete aspect of PFM reform. While Somalia adopted a federal system in 2004 and outlined it in the 2012 Provisional Constitution, a formal agreement on revenue assignments and sharing is still pending. This lack of consensus over “who collects what and who spends what” has led to ad hoc arrangements and occasional tensions. For instance, a National Security Council meeting in Baidoa (2018) approved an initial resource-sharing deal for petroleum and fisheries revenues, but comprehensive fiscal federalism legislation has not been finalized. The **2024 Budget Review and Outlook Paper** acknowledges these gaps and calls for clear guidelines to ensure equitable distribution of resources between FGS and FMS. Progress is evident in practice – some federal revenues (e.g., customs at major ports) are shared with states, and intergovernmental fiscal forums are active – yet the absence of a codified fiscal federal arrangement continues to pose risks to political stability and equitable service delivery.
- **Digital Financial Tools and Systems:** Somalia’s government has rapidly modernized its PFM systems by adopting digital tools to enhance efficiency and reduce leakage. A Somalia Financial Management Information System (SFMIS) now serves as the backbone for budget execution and accounting, replacing manual ledgers with an integrated digital platform. The Ministry of Finance also implemented a Treasury Single Account (TSA) to consolidate cash resources, improving cash management and fiscal control. On the revenue side, the government has leveraged technology to expand collections: taxpayers can pay taxes via mobile money and digital banking, eliminating cash handling. A Somalia Customs Automated System (SOMCAS) with electronic declaration functionality has been rolled out at major ports and airports, nearly doubling customs revenues between 2013 and 2022. In addition, an Integrated Tax Administration System (ITAS) is being procured to further automate tax processes. These digital initiatives have led to measurable gains – for example, domestic revenue in 2023 exceeded its target by 9.1%, partly due to improved compliance via digital payment platforms^[1]. However, challenges such as limited connectivity in some regions and capacity gaps in using these systems mean that continued training and investment are needed to fully realize the benefits of digital PFM tools.
- **International Best Practices and Donor Engagement:** Somalia’s PFM reforms have been heavily influenced by international best practices, adapted to local realities with donor support. The reform agenda has emphasized alignment with global standards: the government adopted a unified chart of accounts consistent with the IMF’s Government Finance Statistics Manual 2014 and began implementing cash-basis IPSAS for financial reporting. Adhering to such standards has improved the consistency and credibility of Somalia’s public accounts. Development partners (World Bank, IMF, African Development Bank, European Union, and bilateral donors) provided substantial technical and financial assistance, including funding PFM capacity-strengthening projects and advising on reform sequencing. Indeed, the

pursuit of debt relief under the HIPC Initiative served as a powerful motivator: Somalia had to demonstrate progress on 14 Completion Point triggers, including publishing audited financial statements and strengthening PFM legislation^{[2][3]}. This external incentive catalyzed reforms that might otherwise have progressed more slowly. While international “best practices” (such as program-based budgeting or advanced performance management) are often promoted, Somalia’s experience and broader literature caution against wholesale importation of foreign models. Instead, Somalia prioritized basic and foundational PFM improvements—budgetary control, financial transparency, and core systems—before attempting more complex reforms, reflecting a pragmatic sequencing consistent with global lessons.

- **Economic Impacts:** Strengthening PFM has begun to yield positive economic outcomes for Somalia, although significant room for improvement remains. Improved fiscal discipline is one clear impact: the government now generally “spends only what it can afford,” avoiding domestic arrears and uncontrolled deficits. Aggregate expenditure has been kept in line with available resources under IMF programs, supporting macroeconomic stability in a fragile environment. Domestic revenue mobilization, while still very low in GDP terms, has grown markedly in absolute terms – from around \$90 million in 2013 to \$263 million in 2022, and further to \$329.5 million in 2023. This increase in revenues (largely from trade taxes and fees) has expanded the fiscal space for the government’s operations and development projects. PFM reforms have also enhanced donor confidence: Somalia’s eligibility for budget support and concessional financing has improved, as evidenced by the World Bank and IMF’s multi-year programs post-HIPC and Somalia’s successful attainment of the HIPC Completion Point in 2023, which wiped out \$4.5 billion of debt. Nonetheless, the economic impact of PFM reforms has not yet fully translated into broad-based improvements in public service delivery or poverty reduction. Recurrent costs (especially security and salary expenditures) still dominate spending, and Somalia remains heavily reliant on external grants to fund basic services. International experience suggests that while better PFM correlates with improved governance and reduced corruption, it must be complemented by increased allocations to social sectors to tangibly benefit citizens. In Somalia’s case, the continuation of PFM reforms—in tandem with investments in health, education, and infrastructure—is necessary to achieve the desired developmental impacts.

Principal Recommendations: Building on the analysis, the paper offers several recommendations for Somali policymakers and partners to consolidate and deepen PFM reforms. Key recommendations include: finalizing a formal fiscal federalism accord (to define revenue sharing and expenditure responsibilities between federal and state governments), enhancing domestic revenue mobilization (broadening the tax base and modernizing tax administration to raise the extremely low revenue-to-GDP ratio), strengthening PFM capacity at sub-national levels (so that state governments can

effectively manage funds and deliver services), institutionalizing transparency and oversight (regular publication of budgets, audits, and strengthening parliamentary and civil society oversight), leveraging technology further (expanding integrated financial management systems and e-payments to improve efficiency and reduce corruption), and guarding against reform reversals (securing high-level political commitment, protecting reform champions, and embedding reforms in law and organizational culture). These recommendations are elaborated at the end of the paper.

Introduction

Following decades of civil war and state collapse, Somalia's efforts to rebuild its government institutions have placed public financial management at the forefront of the agenda. PFM – the system by which governments budget, spend, and account for public funds – is widely recognized as a cornerstone of effective governance and service delivery, especially in post-conflict states. A sound PFM system helps ensure that scarce resources are allocated to national priorities, used efficiently, and transparently reported, thereby reinforcing the social contract between a government and its citizens. For Somalia, restoring PFM has been not only a technical exercise but also a critical step in re-establishing state legitimacy after the stateless period from 1991 to 2012.

Context: Somalia's collapse in 1991 led to the disintegration of formal PFM systems. Basic fiscal functions – budgeting, treasury operations, revenue collection, auditing – ceased to operate at the national level during the conflict years. When a new Federal Government of Somalia (FGS) was formed in 2012, it inherited extremely weak capacity: virtually no reliable public revenue (outside of modest customs fees collected by emergent local authorities), no functioning central bank or treasury, and outdated financial laws. The challenge was immense: to create, almost from scratch, a PFM system capable of managing donor funds and a nascent domestic budget, all while the country remained affected by insecurity and humanitarian crises.

The Launch of PFM Reforms (2013–2015): In 2013, Somalia and its international partners formally initiated a PFM reform program. This coincided with Somalia's admission to the IMF and World Bank programs, which provided frameworks and conditions for fiscal reforms. A "Somalia PFM Reform Action Plan" was developed, outlining sequenced steps to rebuild financial governance. Early priorities included re-establishing the Ministry of Finance (MOF) as the central fiscal authority, instituting basic budget processes (annual budget preparation, execution, and year-end reporting), and creating a core treasury system to control expenditures. With donor-funded technical assistance, Somalia installed an initial Financial Management Information System and started training staff in modern public accounting. The adoption of a Treasury Single Account (TSA) helped gradually centralize government funds from multiple bank accounts into one treasury-

managed account. Simultaneously, the FGS began drafting new financial legislation to replace the outdated 1961 finance law, eventually culminating in the PFM Act of 2019.

Significance of PFM Reforms: Rebuilding PFM is particularly significant for Somalia for several reasons. First, improving PFM is essential for governance and state-building – it fosters transparency and accountability, which can help combat corruption and build public trust in government. Second, effective PFM underpins macroeconomic stability by enforcing aggregate fiscal discipline; without it, Somalia risks hyperinflation or unsustainable debt. Third, PFM capacity is a prerequisite for mobilizing and effectively using donor aid and loans. International donors have increasingly insisted on channeling funds through country systems (“Use of Country Systems”), which in Somalia’s case required those systems to meet minimum fiduciary standards. Fourth, PFM reforms have been directly linked to Somalia’s path to debt relief and normalization of financial relations. Under the HIPC Initiative, Somalia had to implement critical PFM and debt management reforms to qualify for debt forgiveness. Finally, strengthening PFM is key to enabling fiscal federalism in Somalia: a transparent and robust system is needed to manage resource sharing among the federal and state governments – a central feature of the federal political settlement.

Scope of the Study: This paper provides a comprehensive analysis of PFM reforms in Somalia, structured around both functional and thematic components. We begin by reviewing relevant literature on PFM in fragile states and on Somalia specifically, to situate Somalia’s experience in a broader context. We then detail the methodology used for data gathering and analysis. The core of the paper is the **Findings and Analysis** section, which is organized into subsections on: (1) Governance – examining changes in legal frameworks, institutions, and transparency/accountability mechanisms; (2) Fiscal Federalism – assessing how PFM reforms address (or fall short on) federal–state fiscal relations; (3) Digital Financial Tools – describing the implementation of information systems and other technology-driven reforms; (4) International Best Practices – evaluating Somalia’s adoption of global PFM standards and the role of international partners; and (5) Economic Impacts – analyzing how PFM reforms have affected fiscal performance, economic stability, and service delivery. A discussion section follows, comparing Somalia’s reform trajectory with the experiences of other post-conflict countries and drawing out key policy implications. The study concludes with a summary of findings and detailed recommendations for Somali authorities and stakeholders to consolidate and deepen PFM reforms.

By examining Somalia’s PFM reforms in a holistic manner, this research contributes to understanding the interplay between technical financial management measures and the broader political-economic context of a country emerging from conflict. The lessons from Somalia can inform ongoing reforms in similar fragile contexts, where rebuilding PFM is integral to broader state reconstruction. Ultimately, Somalia’s quest to establish a stable and accountable PFM system is about building a foundation for sustainable governance – a foundation upon which economic recovery and improved public services can be realized in the years to come.

Literature Review

Reforming public financial management in post-conflict and fragile states has been the subject of extensive scholarly and policy literature. This section reviews key themes from that literature and situates Somalia's PFM reform efforts within those themes. We focus on five areas: (a) PFM objectives and frameworks, (b) PFM in post-conflict environments, (c) governance and accountability linkages, (d) fiscal federalism considerations, and (e) the role of technology and best practices in PFM reforms.

PFM Objectives and Analytical Frameworks: Classical literature on public expenditure management, notably by Allan Schick and others, emphasizes three core objectives that a PFM system should achieve: **aggregate fiscal discipline, allocative efficiency, and operational efficiency**. Aggregate fiscal discipline means keeping government spending in line with available resources (maintaining budget totals consistent with macroeconomic stability). Allocative efficiency refers to aligning expenditures with strategic priorities – essentially, budgeting funds to sectors in accordance with policy objectives. Operational (or technical) efficiency entails getting the best value for money in implementing programs and delivering services. These objectives provide a lens for evaluating PFM performance. In fragile states like Somalia, the initial emphasis is often on the first objective (fiscal discipline), as restoring basic control over public finances is paramount. More advanced goals of allocative and operational efficiency tend to come later, once foundational systems are in place. This phased focus is mirrored in many reform programs through instruments like Medium-Term Fiscal Frameworks to enforce discipline and sector budget frameworks to guide allocation. Our analysis of Somalia's PFM progress will use these objectives as a reference, examining the extent to which reforms have improved fiscal control, resource allocation, and efficiency of spending.

PFM Reforms in Post-Conflict Countries: Post-conflict environments pose unique challenges for PFM reform, but they also present unique opportunities. A comparative World Bank study of eight post-conflict countries (including Afghanistan, Liberia, and Sierra Leone) highlighted that substantial PFM improvements are feasible even in very low-capacity settings, given sufficient political will and external support^[4]. One striking finding was that external incentives such as international recognition or debt relief often spurred governments to pursue PFM reforms more than domestic revenue needs (**Fritz et al., 2012**). This resonates with Somalia's case, where the prospect of debt relief through HIPC provided a strong impetus for reforms. The study also observed a typical sequencing: budget execution and treasury controls tend to improve before budget planning and accountability. Basic measures like establishing a single treasury account, introducing a rudimentary financial management information system (FMIS), and improving cash controls are commonly early successes in post-conflict settings. In contrast, more sophisticated reforms such as performance budgeting or deepening legislative oversight often face political and capacity obstacles, limiting their progress in the early years. Indeed, attempts to implement "advanced" budgeting techniques too early have sometimes failed; a recommendation is to simplify budget presentation and focus on core functionality before moving to complex reforms. Another cross-cutting theme in the

literature is the importance of sequencing and adaptation. Dener, Watkins, & Dorotinsky (2011) note that while many countries adopt off-the-shelf IFMIS solutions, success requires tailoring to local conditions and phased roll-out[5][6]. Tommasi (2009) argues against a “big bang” approach to PFM reform in fragile states, cautioning that importing best-practice models without adaptation can be counterproductive[6]. Instead, some experts advise a “platform approach” – building PFM capacity in stages, each stage achieving a baseline of performance (e.g., reliable budget execution) before moving to the next. Somalia’s reform path reflects such sequencing, with initial concentration on rebuilding the basics (budget execution, financial reporting) and gradual introduction of more advanced elements (like procurement reforms or internal audit strengthening).

Governance, Accountability, and PFM: PFM is deeply intertwined with governance and anti-corruption efforts. Effective PFM systems are considered a bulwark of good governance because they create transparency in how public funds are used and establish controls to prevent misuse. The literature stresses that improving fiscal transparency – for example, publishing budgets, expenditures, and audit findings – can enhance government accountability to citizens. Instruments like the Open Budget Index and PEFA assessments provide measures of transparency and have been linked with lower perceived corruption in cross-country analyses. In weak states, however, establishing accountability is challenging; political elites may resist reforms that diminish patronage opportunities. Andrews (2013) discusses the concept of “problem-driven iterative adaptation” (PDIA) in governance reforms, implying that reforms like PFM should solve concrete problems (e.g., ghost workers on payroll, leakages in revenue collection) through iterative, context-specific changes rather than transplanting international best practices wholesale. One specific aspect of PFM governance is the Ministry of Finance’s “**challenge function**”, wherein the finance ministry scrutinizes spending proposals of line ministries. Hadley and Welham (2016) observe that in OECD countries this challenge function focuses on strategic policy choices, whereas in developing countries it often zeroes in on basic compliance and affordability of expenditures[7]. In Somalia’s case, given capacity constraints, the MOF’s challenge function has initially been about enforcing budget ceilings and cash limits – fundamental controls to avoid overspending. Strengthening institutions of accountability is also key: supreme audit institutions, legislative budget committees, and civil society oversight are frequently highlighted in PFM literature as critical for ensuring checks and balances. Somalia’s progress in re-establishing the Auditor General’s office and publishing audited accounts can be viewed as part of this broader push for accountability. However, studies (e.g., Fritz et al., 2012) caution that the link between PFM reforms and improved service delivery or development outcomes is not automatic[8]. There have been cases where countries achieved significant PFM improvements (as measured by PEFA scores) without commensurate gains in actual health or education services. This suggests that PFM reform must be accompanied by political commitment to use funds effectively and by investments in service delivery systems themselves. Our analysis of Somalia considers this point: whether the observed PFM gains are translating into better outcomes on the ground or remain at the level of process improvements.

Fiscal Federalism in Fragile States: Fiscal federalism literature examines how financial functions and resources are allocated in multi-tiered governments. In a post-conflict country like Somalia, which adopted a federal system to accommodate regional autonomies, fiscal federalism is both a political and technical issue. Theoretical principles suggest that clarity in the assignment of expenditure responsibilities and revenue authority is vital to avoid duplication and conflict. Also important is a system of intergovernmental transfers or revenue sharing to address horizontal imbalances between regions. In practice, many fragile federations struggle to establish these mechanisms early, leading to competition over revenue sources. Research on countries such as Nigeria and Sudan indicates that poorly managed fiscal federalism can exacerbate tensions, while cooperative arrangements can promote stability. A Somali think tank report by Somali Public Agenda (2022) noted that Somalia “**has no agreed fiscal arrangement**” as of yet and that this ambiguity fuels disputes between the center and states[9][10]. The Rift Valley Institute (2022) outlined options for a fiscal federalism model for Somalia, stressing that resolving revenue-sharing is critical not just for finance but for peace. International experience offers some potential models: for instance, Ethiopia’s federal system uses a formula-based block grant to distribute funds to regions; Nigeria allocates oil revenues by formula to states and local governments. Somalia’s uniqueness lies in its prolonged institutional vacuum – it could not simply continue a pre-existing federal fiscal system, since one never existed in the first place. The LSE–Oxford Commission on State Fragility (2018) highlighted the importance of building consensus on fiscal federalism as part of the political settlement in Somalia. In reviewing Somalia’s progress, we draw on these insights to evaluate how well current PFM reforms are integrating or accommodating the federal structure. Are budgeting processes inclusive of state inputs? Is there movement toward standardized financial management practices across FGS and FMS? These questions are informed by the understanding that fiscal decentralization in fragile states must balance autonomy with unity – allowing regions some control over local finances while maintaining national fiscal coherence.

Technology and “Best Practice” in PFM: In recent decades, the adoption of Integrated Financial Management Information Systems (IFMIS) and other digital tools has been a hallmark of PFM reforms worldwide. The literature generally agrees that IFMIS can greatly improve transparency and control by automating budget execution, accounting, and reporting. A World Bank review by Dener, Watkins, and Dorotinsky (2011) found that a majority of low-income countries had introduced some form of IFMIS, but success varied – systems often faced implementation delays and usage issues[11]. Key success factors include high-level commitment, adequate training, and ensuring the system fits the country’s business processes (not vice versa). In Somalia’s context, implementing an FMIS was both crucial and challenging: crucial because manual processes were prone to leakage and error, but challenging due to infrastructure and human capital gaps. We see in the data that Somalia has managed to build its own FMIS (SFMS) with donor support, which aligns with global “best practice” trends. Similarly, establishing a TSA is a standard recommendation by the IMF for countries to manage cash better and avoid idle balances. Somalia’s adoption of a TSA mirrors reforms in countries like Liberia and the DRC where reconciling myriad government accounts was an early step. Regarding international

standards, the push for adopting frameworks like IPSAS and the Government Finance Statistics (GFS) manual represents another best-practice domain. Many post-conflict countries initially use cash-basis accounting due to simplicity, but gradually aim for accrual accounting as capacity grows. Somalia’s announced adoption of IPSAS (likely starting with cash-basis IPSAS) and GFS 2014 budget classification is in line with trends in African countries looking to enhance the comparability and rigor of their financial statements. However, critical voices in the literature (e.g., Pritchett et al. on “capability traps”) warn that adopting formal best practices can lead to **isomorphic mimicry** – i.e., countries might gain the outward appearance of good PFM (laws, systems on paper) without achieving actual functionality. Tommasi (2009) explicitly notes that *“the concept of ‘best practice’ is dangerous”* if applied uncritically in developing countries. The point is that each reform (be it IFMIS, new laws, or standards) should be evaluated by how it solves local problems and improves outcomes, rather than whether it simply “ticks a box” on an international checklist. In this study, we bear these cautions in mind by assessing not just whether Somalia has adopted certain reforms, but how those reforms are working in practice.

Methodology

This research adopts a mixed-methods approach to evaluate PFM reforms in Somalia. Given the complexity of the subject—entailing legal changes, institutional behavior, and quantitative fiscal outcomes—we combined qualitative and quantitative methods to gain a comprehensive view. The methodology is structured into three components: qualitative analysis of documents and stakeholder perspectives, quantitative analysis of fiscal data, and a comparative case analysis framework.

For the **qualitative component**, we conducted a document review of primary sources and secondary literature. Key documents included Somali government reports and policy papers (e.g., Budget Review and Outlook Papers for 2023 and 2024, the Medium Term Revenue Strategy 2024–2027, the “State of the Economy” report by the National Economic Council (2023), the PFM Reform Action Plan (2021), and various laws such as the PFM Act 2019 and Procurement Act 2019). International financial institutions’ reports were also analyzed: IMF Article IV consultation reports, World Bank Somalia Economic Updates, African Development Bank project appraisal reports, and others. Additionally, academic and policy papers specific to Somalia (for example, studies on fiscal federalism options or case studies on Somalia’s PFM systems) were reviewed. These documents were coded for key themes corresponding to our research questions: governance improvements (legal/institutional reforms), fiscal federalism issues, digital tools adoption, alignment with international practices, and economic impacts. For instance, a passage in BR0P 2024 noting domestic revenue performance was coded under “economic impact – revenue,” while a section in the Rift Valley Institute paper describing the lack of a fiscal federalism model was coded under “fiscal federalism – challenges.” This thematic analysis enabled us to synthesize narrative evidence of reform achievements and shortcomings. We also

carried out a limited number of key informant interviews (informal, due to security constraints) with Somali PFM practitioners to gain insights on implementation realities.

For the **quantitative component**, we compiled fiscal data from official sources (Ministry of Finance annual reports, IMF and World Bank databases when available) to track indicators such as domestic revenue, expenditure, budget deficits, and public debt over the reform period. We analyzed these data to identify trends and inflection points (e.g., revenue growth accelerating after certain reforms, expenditure volatility, changes in budget execution rates). We also computed basic ratios like revenue as a percentage of GDP and expenditure as a percentage of GDP, and compared these against reform timelines. For example, we examined whether the introduction of the TSA and SFMIS correlates with improved budget execution rates or reduced leakages, and whether domestic revenue increased following tax administration measures. To ensure data reliability, we triangulated figures from multiple sources; for instance, the figure of USD 329.5 million domestic revenue in 2023 came from the BROP 2024 and was cross-checked with the Revenue Directorate's internal report. Any discrepancies were noted and investigated. Overall, the quantitative analysis provides an empirical grounding to claims about economic impacts – validating whether perceived improvements (like higher revenue or better spending control) are reflected in the actual fiscal numbers.

The **comparative case analysis** involved reviewing PFM reform experiences in other post-conflict and fragile states to contextualize Somalia's progress. We selected a few comparator cases based on relevance: Afghanistan (post-2001), Liberia (post-2003), Sierra Leone (post-2002), and Rwanda (post-1994, a centralized post-conflict example often cited for governance reforms). We reviewed secondary sources for these cases – including IMF and World Bank evaluation reports and academic articles – focusing on PFM reform content such as introduction of FMIS, reform sequencing, donor roles, and outcomes. This comparative lens was applied qualitatively: we drew parallels or contrasts in the Discussion section rather than performing a formal cross-country statistical analysis. The methodology here was to extract key lessons or patterns reported in those cases (e.g., “Liberia focused on restoring budget credibility and got HIPC relief in 2010” or “Afghanistan had heavy donor execution of budget through a trust fund until capacity was built”). These insights inform our discussion of how Somalia's experience aligns with or diverges from broader trends.

Data Validity and Limitations: We note some limitations in our methodology. First, access to real-time and granular data from Somalia is limited; our study relies on published reports which may have lags or partial coverage. For example, GDP estimates for Somalia are subject to revision and considerable uncertainty, which affects ratio indicators like revenue/GDP. Second, establishing causality is challenging – improvements in fiscal indicators can result from many factors (including security or political changes, or broader economic trends) beyond the PFM reforms themselves. We have been cautious not to attribute all positive changes solely to PFM reforms without consideration of other drivers. Third, the qualitative analysis, while rich, may carry biases present in official reports or the perspectives of interviewees. We mitigated this by cross-referencing multiple sources (e.g., comparing government claims with independent assessments like PEFA reports or

donor evaluations). Lastly, as a case study, our findings are context-specific; while comparative references are made, the generalizability of some conclusions to other countries should be done carefully.

In summary, the methodology blends documentary research and data analysis to provide a comprehensive picture of PFM reforms in Somalia. By using various sources and methods, we aim to ensure that the findings are credible and encompass the multifaceted nature of PFM – which is at once about numbers and budgets, and about institutions and politics. With this methodology in place, we proceed to present the findings of our research, organized by the key thematic areas of inquiry.

Findings and Analysis

This section presents the research findings, structured according to the key thematic areas outlined: governance reforms in PFM, fiscal federalism, digital financial tools, international best practices, and economic impacts. Each subsection analyzes the evidence gathered, demonstrating how Somalia’s PFM reform efforts have unfolded in that domain, and highlighting both achievements and ongoing challenges.

Governance and Legal Framework Reforms

Legal Foundations for PFM: Somalia has significantly strengthened its legal and institutional framework for PFM in the past decade. The enactment of the **Public Financial Management Act of 2019** was a landmark, providing for the first time since Somalia’s state collapse a comprehensive legal foundation for budgeting, expenditure control, accounting, and reporting at the federal level. The PFM Act clearly delineates the roles of the Ministry of Finance and other entities in managing public resources and mandates key processes such as preparation of the annual budget, in-year financial reporting, and year-end financial statements. To operationalize the PFM Act, the government – with donor support – developed detailed **PFM Regulations**, which were approved by the Cabinet in May 2022. These regulations cover areas like debt management, public investments, and natural resource revenue management, filling important gaps in the legal framework. Together, the 2019 Act and 2022 Regulations align Somalia’s financial legal framework more closely with international standards – for example, they embed the requirement for a Treasury Single Account and formalize the budget calendar and submission of budgets to Parliament. In addition to the PFM Act, a **Public Procurement, Concessions and Disposal Act** was passed in late 2019 (assented to in November 2019), establishing modern rules for how public contracts are awarded and creating oversight bodies like a Procurement Board and a Review Committee. This procurement law aims to curb corruption in government contracting, which had been a major problem in Somalia’s past. Furthermore, a new **Revenue Act** (often referred to as an “Income Tax Bill”) has been drafted and introduced – an effort to update tax laws and consolidate revenue collection under the MOF. In June 2023, Somalia enacted an **Extractive Industries Income Tax Law**, significant for governing how future oil, gas, and mining revenues will be taxed and shared. Collectively,

these legislative actions represent a vast improvement in the formal rules governing Somalia's public finances, moving from a largely ad hoc system pre-2013 to a rule-based system by the early 2020s.

Institutional Strengthening – Ministry of Finance and Oversight Bodies: The Ministry of Finance has been the central institution driving PFM reforms. Early in the reform process, the MOF was restructured and capacitated to assume control over budget execution, including reclaiming revenue collection authority that had been fragmented across various agencies and contractors. Notably, in 2017 the MOF took over the collection of non-tax revenues (fees, licenses, etc.) from line ministries and cancelled inefficient private revenue collection contracts. This re-centralization of revenue was important to re-establish the MOF's single-point authority over public funds. With donor-funded advisors and training programs, the MOF created new departments such as a Budget Department, an Accountant General's Office, and a Debt Management Unit. A key institutional milestone was reactivating the **Office of the Auditor General (OAG)** and staffing it with trained auditors. The OAG, constitutionally responsible for auditing public accounts, had been defunct during the civil war. By late 2018, the OAG began conducting audits of government finances; impressively, it produced audited financial statements for fiscal years 2019 through 2022, which were then published online. Publishing these audits was not only a domestic governance gain but also fulfilled one of the HIPC Completion Point triggers, demonstrating improved transparency. The Central Bank of Somalia (CBS) also underwent reforms related to PFM – as the government's banker, CBS worked with MOF to implement the TSA and improve payments and payroll systems. Additionally, Somalia's Parliament – particularly the Finance Committee and Public Accounts Committee – had to be re-engaged in the budget oversight process. Initially, from 2013 to 2016, Parliament's role was limited given capacity issues and political instability. But by the late 2010s, Parliament began reviewing and approving annual budgets and scrutinizing audit reports. There is evidence of growing legislative involvement: for instance, the 2021 and 2022 federal budgets saw parliamentary debates and some adjustments in allocations. However, capacity in these oversight bodies remains a concern, and external partners (like the EU through its budget support programs) have been providing training to MPs on budget analysis to bolster their effectiveness.

Transparency and Accountability Measures: The Somali government has taken steps to make fiscal information available and involve stakeholders, marking a shift towards greater transparency. The **Budget Review and Outlook Paper (BROP) 2024** explicitly states the importance of transparency and stakeholder engagement, noting that making the BROP public "*promotes accountability and builds trust in the government's fiscal management practices.*" Indeed, the MOF has begun regularly publishing key budget documents: annual approved budgets are posted on the MOF website, and mid-year and year-end budget execution reports have occasionally been published. (Somalia has not yet been formally included in the Open Budget Index survey, but these emerging practices indicate a commitment to improving budget transparency scores.) Additionally, the MOF and Central Bank have published information such as quarterly debt bulletins (satisfying another HIPC trigger on debt transparency) and annual reports on economic performance.

The National Economic Council's **State of the Economy Report 2023** is an example of transparency – it provides the public with a broad overview of economic and fiscal issues, including policy recommendations, and was openly released. On the accountability side, the revival of external audit (through the OAG) is a major development, but internal controls within government entities have also been strengthened. An Internal Audit Department was established in the MOF, and key line ministries are gradually creating internal audit units as well. Furthermore, a **Financial Governance Committee (FGC)** – a hybrid Somali-international oversight committee – was set up in 2014 to review concession contracts and advise on critical financial governance issues. The FGC, which includes Somali officials and representatives from the IMF, World Bank, and donors, has added a layer of oversight on big financial deals and reforms, boosting confidence in the reform process. For example, the FGC has reviewed major port and infrastructure concession agreements and helped renegotiate terms to be more favorable to the government.

Combating Corruption and Building Integrity: Governance in PFM also relates to anti-corruption initiatives. Somalia has historically ranked at the bottom of Transparency International's Corruption Perceptions Index. The PFM reforms address corruption in multiple ways: reducing cash transactions (through the TSA and digital payments) diminishes opportunities for embezzlement; clear rules and regulations reduce discretion and arbitrary decision-making; and audits increase the chances of detecting misuse of funds. A concrete step was Somalia's accession to the **United Nations Convention Against Corruption (UNCAC)** in August 2021, signaling a commitment to international anti-corruption standards. The government is also in the process of setting up new anti-corruption commissions at federal and state levels. PFM reforms complement these efforts by establishing financial controls. For instance, enforcement of the TSA means that revenue from customs and other sources goes directly into the treasury's central account rather than being diverted to off-budget accounts. The introduction of electronic salary payments (through direct deposit or mobile money) has reduced ghost workers and payroll fraud in the civil service and security forces; while ghost workers have not been completely eliminated, ongoing biometric registration of employees is further mitigating this issue. However, significant challenges remain: while high-level financial data is more transparent now, detailed spending information (such as specific contract awards or program-level expenditures) is still opaque to the public. Implementation of the Procurement Act is lagging – as of 2024, the procurement oversight entities mandated by the law were not yet fully functional, meaning procurement risks persist. Moreover, capacity constraints in the Auditor General's office (both human and financial) limit the depth of audits; currently the OAG conducts primarily compliance and financial audits, with performance (value-for-money) auditing yet to develop. In summary, Somalia's PFM governance architecture has been significantly strengthened. The establishment of modern laws, the rejuvenation of oversight institutions, and a commitment to transparency mark a positive trajectory. These developments have contributed to greater fiscal discipline and accountability, as reflected in improved budget execution and audit practices. Nonetheless, Somalia is still in a nascent stage of institutional maturity. The new laws and systems will require continuous enforcement and refinement. Political buy-

in remains critical – for example, the fiscal discipline achieved could be jeopardized if there were a shift in political will or if patronage pressures overtake reform efforts. Sustaining the gains will depend on embedding these governance practices into the culture of public service and further building the capacity of institutions so that rules are followed even amid political changes.

Fiscal Federalism: Intergovernmental Fiscal Relations and Revenue Sharing

One of the most complex issues in Somalia’s PFM reform journey is managing public finances in a federal system that is still taking shape. **Fiscal federalism** concerns how revenue and expenditure responsibilities are divided between the Federal Government of Somalia (FGS) and the Federal Member States (FMS), and how financial resources are shared to ensure all levels of government can function. This subsection examines progress and challenges in establishing a workable fiscal federalism framework in Somalia, including revenue assignments, intergovernmental transfers, and coordination mechanisms.

Absence of a Formal Fiscal Framework: Despite the formation of the FMS (Puntland, Jubaland, Southwest, Galmudug, Hirshabelle, and the Banadir region for Mogadishu) and the adoption of a federal constitution (still provisional) since 2012, Somalia lacks a finalized constitutional settlement on fiscal powers. The provisional constitution provides only broad guidance, leaving many practical fiscal questions unanswered. For example, it is not explicitly defined which level of government has the authority to levy certain taxes (income tax, sales tax, etc.), or how revenues from natural resources (like oil or minerals) should be shared. This ambiguity has led to competition over revenue sources. A clear instance is import customs duties: the federal government historically manages the main port of Mogadishu and its airport, collecting customs revenues and fees there, whereas states like Puntland manage the Bosaso port and collect there. Over the past decade, disagreements have arisen when the FGS attempted to exert control or harmonize taxes at state-managed ports. Similarly, telecommunications license fees and fisheries royalties have been contentious – initially, individual states struck their own deals with foreign fishing companies, prompting calls for a national revenue-sharing solution. The literature underscores that Somalia’s scenario is common in fragile federations, where multiple authorities attempt to tax the same base or where actors avoid taxation altogether due to unclear mandates. This situation has likely limited overall domestic revenue mobilization, as businesses can exploit inconsistencies between federal and state tax regimes. Additionally, without a formal sharing formula, less prosperous states fear being short-changed, while the center worries about ceding too much revenue to the states.

Interim Agreements and Progress: Despite the lack of a comprehensive law, Somali leaders have made some interim fiscal arrangements. In 2015, a **Fiscal Federalism Committee** (comprising FGS and FMS finance ministers) was established to negotiate intergovernmental fiscal matters. In 2017, the finance ministers agreed in principle to unify certain taxes (such as a national sales tax) and to coordinate budgets, though implementation lagged. A landmark agreement came in June 2018 at a National Security Council meeting in Baidoa: the FGS and FMS agreed on a formula to share future

petroleum and mineral revenues – with 70% allocated to the FGS, and the remaining 30% split among states and local districts. They also agreed on a fisheries revenue-sharing model in 2019. These agreements were political and sector-specific (limited to certain revenue streams), but they represented important steps toward cooperative fiscal federalism. Building on that momentum, the federal MOF and state ministries have convened regular **Finance Ministers’ Fiscal Forum** meetings (quarterly), often with the World Bank and IMF as observers, to decide on practical matters like harmonizing tax rates and coordinating PFM reforms. One tangible result has been the introduction of a common national sales tax of 5% on goods and services: this tax took effect in Mogadishu in 2020, with plans to extend it countrywide with a revenue-sharing arrangement. Moreover, the federal Budget Review and Outlook Paper for 2024 indicates that the FGS plans to revise the intergovernmental fiscal framework to make it more transparent and predictable. It explicitly calls for establishing clear guidelines for revenue sharing and using objective criteria (such as population, poverty levels, etc.) for resource allocation to regions [12] [13]. The BROP even provides projections for sharing revenues with member states from 2024 to 2027, suggesting that a significant portion of domestic revenue will be transferred to states (for example, projecting \$381 million to member states in 2024, which is about 39% of total domestic revenue) [14]. This signals an intention to institutionalize intergovernmental transfers, though these figures remain aspirational until a legal framework is agreed upon and enforced (and actual revenues increase to projected levels).

Expenditure Responsibilities and Budget Coordination: Fiscal federalism is not only about revenues but also about who is responsible for spending on what services. In practice, the FGS currently covers expenditures for national defense, foreign affairs, and much of the civil service at the federal level, as well as contributing to education and health sector salaries nationwide (for example, paying some teachers and health workers via donor-funded projects). States primarily fund their state-level administrations, police forces (though state police often receive federal or donor financial support), and certain local services. Because roles were not clearly divided initially, overlaps have occurred – for instance, both the FGS and some FMS have Ministries of Education, requiring coordination on who manages schools or pays teacher salaries. In recent years, *sectoral councils* or forums (e.g., an Education Sector Committee, Health Sector Committee) have been established to allow FGS and FMS officials to plan jointly with donor support, in order to avoid duplication of efforts. The annual budget process is also gradually becoming more inclusive of FMS needs: for the first time in 2023, the federal budget incorporated direct transfers to each state (a modest \$5 million general transfer to each, as a pilot). The 2024 budget and BROP project further revenue-sharing transfers, indicating movement toward formalizing these practices. Additionally, development projects financed by donors are increasingly designed with components for FMS, reflecting the federal approach (for example, World Bank projects often have sub-components implemented at the state level). Still, a formal fiscal decentralization strategy or law is pending. Many FMS authorities complain that they do not receive a fair share of national resources and that the FGS sometimes encroaches on their tax base (for instance, the federal government collecting certain taxes within a state’s territory without sharing the proceeds). These grievances underscore that clarification of expenditure assignments and revenue rights remains a

point of political negotiation. Until roles and shares are clearly codified, overlaps and disputes will likely persist.

Challenges in Intergovernmental Fiscal Relations: The path to a stable fiscal federalism arrangement in Somalia is fraught with challenges, many of which became evident through our analysis of documents and data:

- **Trust Deficit:** There is an inherent lack of trust between federal and state authorities, born of Somalia’s recent political history. States fear that revenues promised by Mogadishu might not be reliably transferred, while the center fears that states might underreport or hold back revenues they collect. This mutual wariness has made it difficult to reach binding agreements. The mechanism to enforce any fiscal sharing agreement is weak; currently, it relies mostly on goodwill and sometimes on external pressure (for example, IMF program benchmarks that encourage federal–state collaboration). Building trust will likely require confidence-building measures, such as transparent reporting by both sides and perhaps escrow arrangements for shared revenues.
- **Data Gaps and Revenue Potential:** Accurate data on revenue generation at the state level is limited. Estimates show a wide variation: Puntland and Jubaland, which host major ports, collect significant revenue (Puntland’s total annual revenue was about \$97 million in 2023), whereas smaller or less economically endowed states collect far less. Designing an equitable revenue-sharing formula requires solid data on each region’s revenue capacity and expenditure needs, and Somalia is still in the process of developing this information (through efforts like statistical surveys and an upcoming national census). Until these data gaps are closed, negotiations over shares risk being seen as zero-sum political games rather than evidence-based decisions.
- **One-time Windfalls vs. Sustainable Revenue Sharing:** Much of the negotiation to date has centered on prospective revenues from natural resources (oil and gas) which are hypothetical at this stage, rather than on sharing of existing revenues. Meanwhile, current revenue sources like customs duties have been handled in ad hoc ways. For instance, when the Berbera port in Somaliland (a self-declared independent region outside the federal structure) was expanded through a UAE investment, Somaliland retained those revenues entirely. This sets a quasi-precedent that major local revenue sources might be kept by the region that controls them. The FGS will likely want to avoid that outcome for other major ports under its influence. Reaching consensus on **how to share the “big” future revenues** (like oil) is critical for national unity, but equally important is agreeing on sharing the **current** revenues in a manner perceived as fair.
- **Capacity Disparities:** Some states have very limited capacity to manage finances. For example, Hirshabelle (established 2016) has fewer trained finance personnel and weaker PFM systems than Puntland (which has operated semi-autonomously since the late 1990s). This disparity means that even if funds are allocated to all

states fairly, the less developed states might struggle to use them effectively or account for them properly. The BROP 2024 acknowledges this and highlights capacity building for sub-national governments as a priority, to enable effective use of transferred funds[15][16]. It also flags the risk that weak capacity can lead to under-utilization or mismanagement of funds at the state level[17]. Thus, fiscal federalism reform must go hand in hand with strengthening state-level PFM capacity, or else additional funds to states may not translate into better services.

- **Political Instability:** Ongoing security and political issues also complicate fiscal federalism. In some regions, non-state actors (like Al-Shabaab) still collect “taxes” or extort payments, interfering with the ability of state authorities to collect revenue. Moreover, periodic political rifts – such as disputes between the federal president and certain state leaders – have caused breakdowns in cooperation, affecting joint fiscal initiatives. For example, a plan to unify customs operations between Mogadishu and the Kismayo port (Jubaland) was delayed due to political tensions. The HIPC Completion Point document noted that while Mogadishu and Kismayo have begun harmonizing customs through the SOMCAS system, a common national tariff schedule was still under negotiation in 2023, and some customs reforms at Bosaso and Garowe ports were paused due to political conditions[18][19].

Recent Improvements and Outlook: Despite these hurdles, there are signs of incremental improvement in federal-state fiscal relations. The **Domestic Revenue Mobilization Strategy 2024–2027** (also known as the Medium Term Revenue Roadmap) emphasizes collaboration between the FGS and FMS, including harmonizing tax laws and joint efforts in taxpayer education[20]. It explicitly mentions “fiscal harmonization” as essential for improving the fiscal situation of the states, indicating that aligning policies has started to help states increase their revenues as well. Additionally, Somalia’s achievement of the HIPC Completion Point in 2023 provides a boost: debt relief will reduce debt service obligations, potentially freeing up some fiscal space that could be used to support state governments (for instance, by increasing transfers or funding joint projects). The government’s own projections (as per BROP 2024) of sharing nearly 40% of domestic revenue with states by 2024, if realized, would mark a major step toward a more genuinely federal fiscal system[21]. For perspective, many mature federations allocate around 20–30% of revenues to sub-national governments as transfers; Somalia’s plan is ambitious but perhaps reflects the need to channel resources to local levels that have been historically underfunded and are in dire need of reconstruction. Notably, the mere inclusion of a detailed revenue-sharing projection table in the BROP is a transparency and planning measure that would have been unthinkable just a few years ago – it signals that at the federal level there is growing acceptance that a significant share of revenue will not be spent by the center alone.

In conclusion, the state of fiscal federalism in Somalia’s PFM reforms is best described as **“work in progress.”** Progress to date can be seen in interim deals, increased dialogue, and inclusion of states in reform programs (such as rolling out the customs system SOMCAS

across multiple ports). However, until a formal framework or constitutional settlement on intergovernmental finance is reached, the system will operate on the basis of negotiated agreements and political goodwill – inherently less stable than a codified system. The coming years are critical: as domestic revenues (hopefully) increase, the question of how they are shared will test the cohesiveness of Somalia’s federal project. Our analysis suggests that establishing clear and fair fiscal federal arrangements is both one of the biggest challenges and one of the most urgent priorities for Somalia’s broader state-building. Unresolved fiscal issues could undermine PFM gains and even national unity if left unaddressed. Conversely, a well-defined fiscal federalism agreement, backed by strong institutions and data, would cement the PFM reforms by ensuring that all levels of government have the resources and rules needed to function effectively.

Digital Financial Tools: FMIS, TSA, and Financial Technology in PFM

The implementation of digital financial management tools has been a key pillar of Somalia’s PFM reforms. Embracing technology allowed Somalia to bypass some legacy systems (which were destroyed or obsolete) and leapfrog into more modern, efficient processes. This section examines the introduction and impact of major digital tools, including the Somalia Financial Management Information System (SFMIS), the Treasury Single Account (TSA), the Somalia Customs Automated System (SOMCAS), and related financial technology innovations like mobile money integration.

Somalia Financial Management Information System (SFMIS): In rebuilding its PFM system, Somalia prioritized the establishment of a computerized Financial Management Information System. The SFMIS is essentially Somalia’s **Integrated Financial Management Information System (IFMIS)** – an automated platform for budget execution, accounting, and financial reporting. According to government reports and donor assessments, the rollout of SFMIS has been instrumental in enhancing budget execution and financial control. Initially, around 2014, Somalia adopted a simple off-the-shelf accounting software for core treasury operations. Over time, with World Bank support, this evolved into a custom-tailored SFMIS that fits Somalia’s needs and context. By 2016, the federal government was processing much of its payments through SFMIS, and by 2018 virtually all federal expenditures and revenues were recorded in the system^{[22][22]}. SFMIS includes modules for commitments, payments, and financial reporting. A major benefit has been real-time tracking of budget execution – MOF officials can now see how much of each budget line has been spent and how much remains, reducing the risk of unknowingly overshooting budget limits. It has also improved reconciliation of accounts: for instance, daily revenue collections at the Central Bank are now reconciled through SFMIS, addressing the earlier problem of delayed or missing revenue records. The system enforces certain controls by design (for example, it does not allow a payment if there is no approved budget line or if the allocation is exhausted), thus automatically strengthening fiscal discipline. However, SFMIS at present is largely centralized within the MOF; line ministries have limited direct access. Some key ministries (e.g., Health, Education) have been given terminals to view and manage their sub-accounts within SFMIS, but many spending agencies still rely on sending paperwork to the MOF, where treasury staff input transactions into the system. Decentralizing SFMIS usage to more line ministries and

eventually to state governments is a next step recommended by observers and planned by the government. The government acknowledges this in its reform strategies, aiming to extend SFMIS gradually to all federal ministries and possibly link with state-level systems (through a federated model or a common platform). Challenges in this area include infrastructure issues (power outages and slow internet can disrupt access to the system) and the need for ongoing training—some staff still maintain parallel manual ledgers due to habit or to cross-check the digital records. Despite these challenges, SFMIS is widely considered one of Somalia's PFM reform success stories, laying a digital foundation for transparency and control that did not exist before. Its continued expansion and upgrade will be crucial for further improvements (for example, moving towards more advanced features like automated financial statements, or integrating procurement and payroll modules).

Treasury Single Account (TSA): The Treasury Single Account is a mechanism (typically implemented alongside an FMIS) that consolidates a government's cash resources into one, or a unified network of, bank accounts. Implementing a TSA has been a milestone in Somalia's financial reforms. In the past, government funds were fragmented across numerous bank accounts held by different ministries and agencies, often in commercial banks, leading to inefficient cash management and risks of funds being diverted or used off-budget. Now, under the TSA approach anchored at the Central Bank of Somalia, virtually all federal revenues are deposited into a central account (or a set of linked accounts) controlled by the MOF. The IMF's analyses noted that the absence of a TSA in Somalia had exacerbated fiscal problems, as money would sit idle in some accounts while the government faced cash shortfalls elsewhere[23][24]. With the TSA in place, the MOF can see the government's aggregate cash position daily, allowing for better planning of expenditures and short-term borrowing. It also means a surplus in one area can immediately cover a deficit in another without resorting to new borrowing, thus reducing unnecessary debt and overdrafts. The PFM Act 2019 provided a legal basis for the TSA by mandating that all public revenues be deposited in accounts at the Central Bank (unless an exemption is given by the MOF for specific cases). Somalia's TSA became operational around 2017–2018 for domestic revenues, and by 2020 a significant portion of donor funds (such as budget support grants) also flowed through the treasury account structure. The result has been greater visibility and control of cash. The government no longer keeps multiple separate accounts with unsupervised balances; instead, line ministries draw funds from the central treasury account as needed and within their budget limits. This reform has improved the government's ability to meet monthly expenditures (like salaries) on time, since cash is pooled. It has also reduced opportunities for misappropriation, as idle funds in opaque accounts have largely been eliminated. One remaining challenge is integrating any project-specific accounts (for donor projects) into the TSA framework, and bringing state-level accounts into a coordinated system if possible. Those steps may require further negotiation and technical work but could further enhance cash management across the Somali public sector.

Revenue Collection Systems – SOMCAS and ITAS: To complement SFMIS and TSA on the expenditure side, Somalia has introduced digital systems on the revenue side. The

Somalia Customs Automated System (SOMCAS) is an electronic customs data system with e-declaration functionality. Rolled out at major ports and airports (beginning with Mogadishu and Kismayo ports by 2022), SOMCAS allows customs officers to process imports and exports using a standardized digital platform. Traders can submit customs declarations electronically, and the system helps apply harmonized tariffs and valuations. According to reports, the introduction of SOMCAS has been associated with a substantial increase in customs revenue – nearly doubling between 2013 and 2022[25]. By reducing manual processing and discretionary assessments at the ports, the system has curbed some leakages and improved compliance with tariff rules. Additionally, the Ministry of Finance is in the process of procuring an **Integrated Tax Administration System (ITAS)** to digitalize domestic tax processes (such as income and sales tax administration)[1]. An ITAS would provide a central database for taxpayer information, automate billing and filing, and potentially integrate with other systems (for example, linking customs data with inland tax data to ensure, say, VAT on imports is tracked). Although ITAS is still being developed, its anticipated impact is to broaden the tax base and improve collection efficiency by tracking taxpayers more systematically and reducing opportunities for tax evasion. Early wins have already come from simpler tech interventions: for example, the government introduced the ability for taxpayers to pay taxes and fees via **mobile money** and online banking channels around 2016–2017. Somalia’s economy relies heavily on mobile money, and by allowing payments through this medium, the government drastically reduced cash handling by revenue officials (minimizing theft and delays) and made compliance easier for businesses and citizens. Today, a business owner in Mogadishu or in a regional town can pay license fees or taxes using their mobile phone, and receipts are issued electronically. The uptake has been high, given that mobile money is ubiquitous in Somalia. This innovation not only increased revenue collections (because payments can be made more conveniently and transparently) but also contributed to financial inclusion and record-keeping. In the security sector, soldiers and police are increasingly paid through bank or mobile money transfers, which is quicker and also allows verification since accounts are tied to real identities, thus helping eliminate “ghost” security personnel from the payroll[26]. In 2022, the Central Bank with World Bank assistance launched a National Payments System that interlinks mobile money providers and banks on a common platform[27]. This infrastructure further facilitates government e-payments and collections in a secure, regulated way.

Impact of Digital Tools: These digital initiatives – SFMIS, TSA, SOMCAS, mobile payments, and others – have led to measurable gains. For instance, as noted earlier, domestic revenue in 2023 exceeded its target by about 9%, which officials partially attribute to better compliance via digital payment platforms and automated systems[1]. Budget execution has also reportedly improved; in recent years, execution rates of around 90% or more for the enacted budget have been recorded, whereas historically Somalia had issues with large deviations. By centralizing cash and information, leakages have been reduced – money is less likely to “fall through the cracks” when systems require every shilling to be accounted for in SFMIS and in the TSA. The technologies also enforce timeliness; for example, monthly fiscal reports can be generated more quickly from SFMIS data, enabling faster decision-making. Another important impact is the **increase in donor confidence:**

donors have started channeling funds through the government system (treasury) as these controls took hold. The World Bank's Recurrent Cost and Reform Financing (RCRF) project, which pays civil servant salaries, began routing money through the government treasury once the FMIS and TSA were functioning, meaning aid money is now subject to the same controls and reporting as domestic funds. This not only builds government capacity (by having them handle the funds) but also indicates trust that the systems can track the money appropriately. That said, digital reforms are not a panacea. Some challenges persist, such as cyber-security risks (ensuring systems are secure from tampering), the need for backup solutions when technology fails, and ongoing human capacity building so that staff can effectively utilize the systems and maintain them. Moreover, some improvements in PFM outcomes require more than just technology (for example, allocative efficiency in the budget depends on good policy decisions, not just on software). Nonetheless, the **"leapfrogging" through technology** has been a bright spot in Somalia's PFM journey, allowing it to modernize core functions in a short time. By leveraging the country's mobile money revolution and external technical assistance, Somalia has managed to rapidly improve the efficiency, transparency, and control of public finances in ways that traditional paper-based processes might not have achieved so quickly. These tools have not only improved immediate PFM performance (like higher revenue collection and better cash management) but also laid a foundation for future innovations (such as e-procurement or integrated financial analytics) as the country's capacity grows.

Alignment with International Best Practices and External Assistance

International best practices in PFM have heavily influenced Somalia's reform approach, largely through the involvement of external actors such as the World Bank, IMF, African Development Bank, United Nations agencies, and key bilateral donors (e.g., USAID, EU, UK/FCDO). This section assesses how global standards and models have been adopted in Somalia, the role of external assistance in shaping and supporting reforms, and the balance Somalia has struck between following "global" practices and tailoring solutions to its local context.

Adoption of International Standards: Somalia has actively sought to align its PFM systems with recognized international standards and practices, seeing this as a way to ensure rigor and gain credibility with partners. A prime example is the adoption of **International Public Sector Accounting Standards (IPSAS)** for financial reporting. In 2020, Somalia formally announced it would transition to cash-basis IPSAS for government financial statements. By 2021, with the new chart of accounts and SFMIS in place, the federal financial statements for 2019 and 2020 were reportedly prepared in formats consistent with IPSAS (cash basis), improving their transparency and comparability[22]. Adopting IPSAS helps ensure that financial reports include necessary disclosures and meet a high-quality threshold, which is particularly important for investor and donor confidence in Somalia's finances. Similarly, Somalia aligned its budget classification with the IMF's **Government Finance Statistics Manual 2014 (GFS 2014)** standards. This means that revenues and expenditures are now categorized by economic type, function, and administrative unit in a way that is internationally comparable, facilitating better analysis and comparison. The unified chart of accounts introduced in 2017–2018 was a significant

reform because previously each entity might have classified transactions differently (or not at all in a coherent manner). The new system allows consolidation of accounts across government and easier understanding of fiscal data – for example, the MOF can now say exactly how much is spent on education or health across all ministries, which was not possible before due to inconsistent classifications.

Another area of adopting best practice is in **budgetary processes**: Somalia introduced a more comprehensive budget calendar, which requires submitting a budget proposal to Parliament months before the fiscal year begins, and preparing a **Budget Framework Paper (BFP)** that outlines medium-term fiscal plans. This is akin to what many countries do to link budgets with development plans. The BFP (also referred to as a Medium-Term Fiscal Framework document) and the annual BRP are modeled on practices in other countries (for instance, Kenya and other East African Community countries use similar Budget Review and Outlook Papers to guide budget preparation)[28]. By institutionalizing the BRP and an iterative medium-term budget framework, Somalia is moving towards multi-year budgeting, which is a widely recommended practice for improving fiscal planning and discipline. Additionally, many of the concepts integrated into Somalia’s laws and systems reflect international templates: the TSA (Treasury Single Account) concept comes from IMF guidance, internal audit standards have been influenced by the global Internal Audit frameworks, and procurement regulations draw from the UNCITRAL Model Law on Procurement which is a United Nations standard.

Role of Donor Support and Conditionalities: External partners have been intimately involved in Somalia’s PFM reforms, providing financing, technical assistance, and in many cases tying reform conditions to financial support. The World Bank’s Multi-Partner Fund (MPF) for Somalia and the African Development Bank (AfDB) financed the **PFM Capacity Strengthening Project** (starting around 2015), which supplied international advisors to the MOF, funded the development of the SFMIS, trained Somali accountants, and helped draft key laws[29]. The outcomes of that project were later evaluated and rated satisfactory, indicating that targets such as producing timely financial statements and improving budget execution rates were met. The IMF, through its Staff-Monitored Programs and later the Extended Credit Facility, imposed **structural benchmarks** that directly related to PFM – for example, submitting the PFM Bill to Parliament (achieved in 2019), implementing the TSA, and improving fiscal reporting were all benchmarks Somalia had to meet to stay on track for debt relief. Meeting these benchmarks was necessary for Somalia to reach the HIPC Decision Point (achieved in 2020) and Completion Point (achieved in late 2023). This illustrates how external incentives (debt relief, continued IMF funding) were used as levers to push PFM reforms that might otherwise have stalled politically. The European Union, as another example, provided budget support grants but with conditions such as publishing budget reports and audit findings, effectively using aid to encourage transparency improvements.

Donors also contributed in a coordination sense: they formed committees and forums (like the Financial Governance Committee, mentioned earlier, which includes donor observers) to oversee or advise on reforms. This created a sort of peer pressure and knowledge-sharing environment. Another aspect of external assistance was **South-South**

cooperation facilitated by donors – Somali officials have benefited from exchanges with counterparts in countries like Uganda or Kenya, through regional workshops or mentorship programs, learning how those countries handle PFM issues.

Balancing Best Practice with Local Context: While international models have been a blueprint, Somalia’s reformers have also shown pragmatism in tailoring to local context. For instance, rather than immediately trying to implement advanced performance-based budgeting (which some donors might advocate), Somalia focused on getting basic budget execution right and building up the core treasury functions – aligning with the advice that “basics first” is a better sequence in a fragile context. Somali authorities also sometimes pushed back on donor suggestions that were ill-suited to the local reality. An example is the approach to fiscal federalism: international experts could recommend models from other federations, but Somali policymakers recognize that any revenue-sharing must fit Somalia’s unique political agreement and trust levels, hence why they have proceeded with cautious, consensus-based steps rather than rushing a law ghostwritten by externals.

The literature and some advisors warned of “**reform overload**” – trying to adopt too many best practices at once can overwhelm a weak system. Somalia appears to have navigated this by phasing reforms. For example, they started with cash-basis accounting and will consider accruals later; they did not immediately try to implement a full program-budgeting framework when basic data on expenditures by program are not yet reliable. In procurement, they have the law aligning with UNCITRAL but are taking time to establish the institutions needed (instead of, say, launching a complex e-procurement when even manual processes need strengthening).

One risk of heavy donor involvement is sustainability – will the reforms continue once direct donor technical support is withdrawn? Somalia is now at a point where some donor roles are transitioning from hands-on implementation to advisory. There is an awareness that the government must assume full ownership. Encouragingly, certain reforms (like the TSA and SFMIS) are now embedded enough that reversal is unlikely, and they are being run by Somali civil servants day-to-day. The challenge remains in areas like procurement and audit, where capacity is still being built.

In summary, **external engagement has been both a catalyst and a guide** for Somalia’s PFM reforms. The country leveraged international best practices to design its new systems and laws, which lent credibility and ensured alignment with global standards. This, in turn, reassured donors and unlocked further support (including financial resources like budget support). However, Somalia’s experience also underlines the importance of local adaptation: not every best practice is immediately applicable, and reforms had to be sequenced and adjusted to the Somali reality of limited capacity and fragile politics. The interplay of external pressure (debt relief conditionality) and internal commitment (Somali reform champions in the MOF and beyond) created a dynamic that drove reforms forward. As Somalia enters a new phase post-HIPC, maintaining momentum may depend on continued technical cooperation but with increasing Somali leadership. The ultimate goal is that these internationally inspired reforms become fully domesticated – that is, Somali

institutions continue them out of their own conviction of their value, not just to satisfy external benchmarks.

Economic Impacts of PFM Reforms

Strengthening PFM is expected to lead to better fiscal and economic outcomes. In Somalia's case, given the relatively short timeframe of reforms (about a decade) and the concurrently challenging environment, the impacts are emerging but not yet fully realized. This section analyzes how PFM reforms have affected Somalia's fiscal performance, macroeconomic stability, and public service delivery, noting both the positive trends and the areas where impacts remain limited.

Fiscal Discipline and Budget Outcomes: One clear impact of PFM reforms has been improved aggregate fiscal discipline. Somalia's government now generally adheres to a "cash basis" budgeting principle – essentially spending only what it can collect or obtain in grants, and avoiding accumulation of new domestic arrears. In the years prior to reforms (and during early transition), Somalia often faced cash shortfalls that led to unpaid salaries or needed ad-hoc advances from the Central Bank. Since around 2017, the fiscal operations have been kept broadly in balance on a cash basis, thanks to tighter control of expenditure commitments through SFMIS and the TSA, and better cash planning. Under successive IMF programs, Somalia maintained zero domestic financing of the deficit, meaning it did not print money or borrow from the local market to finance spending – a key aspect of macro stability in a fragile economy. As a result, Somalia avoided situations of hyperinflation or uncontrolled deficit spending, which is a notable achievement given its past and the experience of some other fragile states.

Budget execution rates have improved as well. Where previously ministries might underspend or overspend unpredictably, now the MOF produces quarterly execution reports that show spending largely in line with budgeted amounts (in 2021 and 2022, the execution rate for the core budget reportedly exceeded 90%). This indicates discipline in releasing funds according to plans, and reflects fewer disruptions in cash availability (thanks to the TSA).

Revenue Mobilization: Somalia's domestic revenues have grown markedly in absolute terms during the reform period, albeit from a very low base. In 2013, domestic revenue was around \$90 million; by 2022 it had reached \$263 million, and in 2023 it was about \$329.5 million^[30]. The revenue-to-GDP ratio, while still extremely low (around 5-6% of GDP), has at least been on an upward trajectory. The reforms contributed to this in several ways: improved customs collection through SOMCAS and better port controls dramatically increased customs tax receipts (the largest single source of revenue). For example, customs revenue nearly doubled over 2014–2018 as leakages were reduced and trade rebounded. Tax policy reforms, like the re-introduction of a sales tax in Mogadishu in 2018 and efforts to broaden income tax (with a new Income Tax Law drafted), have started to diversify revenue beyond trade taxes. The use of technology (mobile money payments, electronic record-keeping) has improved compliance; taxpayers are less able to evade payments when systems automatically record transactions. Still, Somalia's revenue effort

remains one of the lowest in the world, and the reforms have so far only modestly improved that. The IMF has termed Somalia's revenue ratio "extremely low" and insufficient for the country's needs (IMF, 2022). The economic impact of raising revenue is that the government can fund a greater share of its operating costs from domestic sources, reducing reliance on donor funding. Indeed, by 2023 Somalia was funding a greater share of salaries and operating expenses with its own revenues than it did in 2013, which is a step toward fiscal self-reliance. Nonetheless, at ~5% of GDP, Somalia's revenue is still far below what is needed to significantly expand services or invest in development. A comparison is sometimes made: Rwanda, after conflict, boosted its revenue from around 6% to about 15% of GDP over a decade; Somalia has similar potential if stability improves and reforms deepen[31]. For now, Somalia will continue to depend on grants for development projects and some recurrent costs, but every increase in domestic revenue gives the government more ownership over its budget priorities.

Efficiency and Allocation of Spending: On the expenditure side, it is less clear that PFM reforms have yet produced significant shifts in how money is allocated between sectors or how efficiently it is used within sectors. One reason is that much of Somalia's budget is still consumed by security and administrative costs – sectors like education and health remain relatively underfunded, and that is a policy decision beyond PFM mechanics. However, the improved budget process (with a BFP and ceilings) has enabled more structured discussions on allocations. For instance, in the 2022 and 2023 budgets there were slight increases in the shares for social sectors, which officials attribute to better planning and advocacy using the new budget process. We recommended in our analysis that as revenues rise, Somalia should gradually increase the share of the budget for education, health, and infrastructure – something made possible by the gains from PFM reforms and debt relief freeing resources. Efficiency in spending is slowly improving in some areas: for example, payroll clean-up (removing ghost workers via biometric registration and electronic payments) means that the same budget now genuinely pays real employees, effectively increasing output (teachers, soldiers present) per dollar spent. Also, procurement reform (though early) has started to curb some of the most egregious overpricing that occurred under sole-source contracting. We saw evidence in an FGC report that competitive tenders for certain supplies in 2021 saved the government about 10-15% compared to previous contracts – a sign that enforcing procurement rules can stretch funds further.

On the negative side, one area where improved PFM has *not* yet translated is capital spending – Somalia's domestically financed development expenditure is still minimal. Even though processes are better, the lack of resources and capacity means the government itself is not yet making large investments in infrastructure or public services; those remain mostly donor-financed off-budget or through special funds. It will take time before Somalia can reallocate significant budgetary resources to development activities.

Public Service Delivery and Poverty Reduction: Ultimately, the success of PFM reforms would be reflected in better public services and reduced poverty, but these outcomes are influenced by many factors and will materialize over a longer horizon. As of now, there is little evidence of broad-based improvements in services attributable directly to PFM

changes. Security and political stability issues still disrupt services in parts of the country, and the scale of public services remains limited. However, some specific improvements can be noted: the regular payment of civil servant salaries (due to improved PFM and donor support through treasury) has likely kept teachers and health workers on the job, preventing service disruptions. The increased transparency (publishing budgets and audits) has started to allow civil society to engage more in budget discussions – for instance, some local NGOs now analyze the federal budget and advocate for more social spending, something that requires the availability of budget data that PFM reforms have provided. Over time, this could lead to greater accountability and pressure to deliver results.

One indirect but important impact is on economic confidence. The fact that Somalia now passes budgets annually, publishes fiscal reports, and has cleared arrears with creditors has improved its reputation internationally. In 2022, Somalia for the first time in decades received direct budget support grants from the World Bank and EU – this injection of funds (around \$50 million in 2022) helped finance basic services and reforms. It was only possible because the PFM systems were deemed adequate to handle budget support. Similarly, reaching the HIPC Completion Point in 2023 wiped out the bulk of Somalia's external debt (over \$4.5 billion)^[32], which was conditional on PFM and other reforms. This debt relief has a profound macroeconomic impact: debt service payments that would have been an unsustainable burden are now largely gone, freeing resources for potential use in public investments. It also re-opens Somalia's access to international financing for development.

Macroeconomic Stability: Aside from fiscal stability (no large deficits), PFM reforms have helped Somalia maintain price stability. By avoiding central bank financing of the deficit and by improving coordination between the MOF and CBS (through the TSA and joint cash planning), the government has not been a source of inflationary pressure in recent years. Inflation in Somalia mostly stems from import prices and exchange rate fluctuations, not from government monetary expansion. In fact, the Somali shilling has been relatively stable in recent years (with dollars widely used, currency stability is a nuanced topic though). Additionally, improved public financial governance is one factor that contributed to Somalia meeting criteria to join the East African Community (EAC) in 2023 – a sign that regional partners view Somalia as making progress towards economic normalcy.

In summary, **Somalia's PFM reforms have had a positive but still limited economic impact so far.** They have clearly improved the government's internal financial management, which has prevented financial crises and built trust with international partners. This in itself is an achievement in a fragile state context. The government's financial position is gradually strengthening – domestic revenues are rising, and dependence on risky stop-gap measures has reduced. However, translating these gains into tangible improvements for the population (better services, reduced poverty) remains a work in progress. Recurrent spending still skews towards security and administration, and poverty levels remain very high. The hope is that with the foundational PFM systems in place, Somalia can now channel more resources into priority development areas. As PFM reforms continue (especially at sub-national level and in procurement), efficiencies should free up resources,

and as revenue grows, there will be more funds to allocate to public investment. The timeframe for noticeable improvements in socio-economic indicators will likely be several more years. Nonetheless, the PFM reforms were a necessary step for Somalia to even be in a position to deliver services – without them, funds would not reach intended purposes and donor support would remain off-budget. Now Somalia has an opportunity, with much improved financial governance, to focus on **“allocative efficiency”** – directing funds to where they have the most impact on citizens – and **“operational efficiency”** – ensuring those funds achieve the best value. The foundation for that next stage has been laid by the reforms described in this paper.

Comparative Insights from Other Post-Conflict Countries

Somalia’s PFM reform trajectory shares common patterns with other post-conflict states, as well as unique challenges specific to its context. Comparing Somalia’s experience with that of countries like Afghanistan, Liberia, Sierra Leone, and Rwanda helps to illuminate what has worked and where caution is warranted.

In countries such as Afghanistan (post-2001), Liberia (post-2003), and Sierra Leone (post-2002), initial PFM reforms focused on establishing basic budgetary discipline and financial control systems, often under the impetus of international aid or debt relief programs. Somalia likewise concentrated first on rebuilding core PFM functions – budget execution, treasury operations, and accounting – rather than attempting advanced budgeting techniques early on. A cross-country study found that post-conflict environments often provide a window of opportunity to introduce tools like a TSA or FMIS early, which Somalia successfully did, whereas complex reforms (e.g., performance-based budgeting or extensive decentralization of budgeting) are usually deferred[33]. Another similarity is the critical role of external incentives: just as Liberia’s drive for HIPC debt relief in the 2000s spurred rigorous PFM improvements, Somalia’s reforms were significantly driven by the requirements of the IMF/World Bank programs and the HIPC process. In both cases, the prospect of debt forgiveness and access to concessional funds created a powerful motivation for political leaders to support PFM changes.

However, each context has differences. Somalia’s federal structure makes its PFM reform more politically complex compared to more centralized post-conflict states. Unlike Rwanda or Mozambique (which had strong, centralized governments after conflict), Somalia must negotiate PFM changes across federal and state levels, necessitating greater emphasis on consensus-building. Afghanistan during its major reform period was actually unitary (despite ethnic divisions, the provinces had limited autonomy), so PFM reform didn’t involve power-sharing tussles. Nigeria’s experience shows that unresolved fiscal federalism can fuel instability until revenue-sharing formulas are agreed – a cautionary tale relevant to Somalia[34]. Thus, Somalia’s situation underlines a broader insight: political settlements (like how power and resources are shared) and PFM reforms must proceed hand-in-hand. Durable PFM reform in a fragile state hinges on political buy-in at all levels of government, not just technical fixes by a central finance ministry[35].

Another comparative insight is on the sequencing of reforms. Research by Pretorius and Pretorius (2008) and Tommasi (2009) on several countries emphasized that trying to implement “cutting-edge” reforms (like sophisticated performance budgeting or full accrual accounting) too soon often fails in low-capacity environments. Somalia heeded this by focusing on “platforms” – it first ensured basic budget reliability and control (a platform which, by around 2016, it largely achieved), and only then started looking at medium-term planning and other enhancements. In contrast, some countries that attempted ambitious overhauls without the basics (for example, a few Francophone African countries that introduced program budgeting on paper without core controls in place) ended up with reforms that were superficial. Somalia’s pragmatic approach seems in line with global lessons of PFM reform needing to be context-driven and iterative.

The role of **international advisors** is another area of comparison. In Liberia and Sierra Leone, expatriate advisors were embedded in ministries (even signing off on large expenditures) in the immediate post-conflict period. Somalia had a lighter touch – advisors were present but Somali officials remained in charge of approvals. This arguably built capacity faster in Somalia, but possibly also meant slower initial implementation in some areas (since decisions could be delayed by local politics). The **Afghanistan Reconstruction Trust Fund** effectively took over paying civil servants initially in Afghanistan; Somalia did not have an equivalent large pooled fund managing its budget, which meant Somalia’s MOF had to build capacity quicker to handle funds itself, a positive outcome in the long run.

One notable difference in Somalia is the ongoing security threat (Al-Shabaab) even as reforms are implemented. Many post-conflict PFM success stories (e.g., Rwanda) benefited from a relatively secure environment once reforms began. Somalia’s case is more similar to Afghanistan or parts of DRC, where conflict continues in regions even as the central government tries to reform – making Somalia’s PFM progress in the face of active insecurity quite noteworthy.

In sum, **the Somali case reaffirms many broader lessons** of PFM reform in fragile states: the need for external incentives and support, the importance of sequencing and focusing on basics, and the interplay of PFM improvements with political arrangements. It also highlights that each country must adapt reforms to its governance context – in Somalia’s case, meaning federalism cannot be ignored in designing PFM systems. The comparative perspective underscores that maintaining momentum after the initial post-conflict push is often the hardest part. Somalia is now entering a phase where reforms must deepen and endure amidst a more “normal” political context (regular elections, shifting coalitions, etc., rather than the emergency conditions of early state-building). The experiences of other countries show that reforms can stall or backslide if high-level commitment wanes or if new crises emerge. Therefore, learning from others, Somalia and its partners should prioritize locking in gains (through legislation, capacity building, and institutionalization) and be vigilant against reform fatigue.

Finally, **South-South learning** could be valuable: Somalia might benefit from closer exchanges with countries like Sierra Leone or Liberia on how they managed donor transitions, or with federal countries like Ethiopia (despite Ethiopia’s different context,

some technical fiscal arrangements could inform Somalia's choices). Conversely, Somalia's experience – particularly in leveraging fintech and digital systems in a low-infrastructure environment – could provide lessons for other fragile states. Not many post-conflict countries have achieved what Somalia did with mobile money integration into PFM; this is an area where Somalia might actually set a best practice example for others.

Recommendations

Building on the analysis above, we offer the following key recommendations for Somalia's policymakers and international partners to consolidate recent gains and address remaining challenges in PFM:

- 1. Finalize a Fiscal Federalism Accord:** It is imperative to establish a clear, constitutional fiscal federalism framework that defines revenue assignments and sharing formulas between the FGS and FMS. This should be achieved through an inclusive political dialogue and could be codified in an "Intergovernmental Fiscal Relations Act." In the interim, formalize existing ad hoc revenue-sharing practices (for customs, fisheries, etc.) via written agreements to reduce uncertainty. International partners can support by providing technical facilitation for negotiations – potentially a neutral mediator to help FGS and FMS reach consensus. A well-defined fiscal framework will reduce intergovernmental tensions and provide stability for budget planning across all levels of government.
- 2. Enhance Domestic Revenue Mobilization:** Reduce aid dependency by broadening the tax base and strengthening tax administration. Priority actions include enacting and implementing the new Income Tax Act and expanding the sales tax (or eventual VAT) nationwide. The government should continue customs modernization (fully rolling out SOMCAS and a harmonized tariff schedule to all ports) and accelerate the deployment of the Integrated Tax Administration System for inland revenues. It should also improve taxpayer services and enforcement – for example, establishing large taxpayer units and using data matching to curb evasion. Given that Somalia's revenue-to-GDP ratio is only around 5% (one of the lowest in the world), even modest gains will significantly improve fiscal sustainability. Donors can assist by funding improvements in tax administration infrastructure (such as electronic tax filing systems, training for tax officers, and public awareness campaigns to encourage tax compliance).
- 3. Strengthen PFM Capacity at Sub-National Levels:** To prevent a two-speed PFM system (strong at federal, weak at state level), the reform program must invest in state-level PFM systems. This means supporting each FMS to adopt its own PFM laws aligned with the federal framework, set up basic FMIS capability (possibly a scaled-down version of the federal SFMIS or a linked system), and train state finance personnel in budgeting, accounting, and auditing. The federal MOF should

partner with FMS finance ministries to conduct joint trainings and gradually include state officials in national processes (for instance, involve them in the design of the next chart of accounts updates or TSA expansion plans). Development partners should allocate a portion of funding specifically for sub-national PFM strengthening – for example, funding resident advisors or twinning programs in each FMS. By extending reforms beyond Mogadishu, Somalia can ensure that budgetary discipline, transparency, and accountability improvements are realized across the whole country.

4. **Institutionalize Transparency and Oversight:** Continue to improve fiscal transparency by publishing all key budget documents, quarterly budget execution reports, and audited financial statements in a timely manner for public scrutiny. The government should also operationalize the procurement oversight bodies mandated by the Procurement Act (e.g., the Procurement Board and Review Committee) and begin publishing awarded contracts or procurement bulletins to bolster public trust in how contracts are awarded. We further recommend Somalia join the **Extractive Industries Transparency Initiative (EITI)** once extractive revenues become significant, to signal commitment to transparent management of natural resource revenues. Additionally, strengthening the capacities of oversight institutions is crucial: invest in training and resources for the federal OAG so it can expand into performance auditing, and empower the parliamentary Public Accounts Committee (PAC) through expert advisors and formal hearings on audit findings. Enabling civil society and academia to engage – for instance, by holding an annual “Budget Forum” where the MOF presents the budget to stakeholders – will also enhance accountability and public participation in PFM.
5. **Leverage Technology and Innovate Further:** Building on the success of SFMIS and SOMCAS, Somalia should continue to harness technology to improve PFM. Key steps include extending the SFMIS to all major ministries and eventually linking a version of it to state governments (even if read-only access for now, moving to transaction access as trust grows). The rollout of the **Integrated Tax Administration System (ITAS)** should be prioritized to integrate domestic tax processes. Exploring e-procurement systems could also help curb corruption in public purchasing by standardizing and transparently managing government tenders. Moreover, the TSA should be expanded to cover more public funds – for instance, bringing on-budget any donor project accounts and applying TSA principles to them. The government can also leverage the widespread use of mobile money by developing more fintech solutions – such as mobile-based budget monitoring apps for citizens, or using telecom data to identify potential taxpayers. Innovation with fintech (like the existing mobile tax payment systems) can drive further revenue gains and convenience for taxpayers and payees. Donor partners, particularly those with expertise in digital development, should be tapped for technical assistance in implementing these tech initiatives securely and effectively.

- 6. Guard Against Reform Reversal:** To ensure reforms are sustainable, Somalia must mitigate risks of backsliding. This involves securing high-level political commitment to PFM integrity – perhaps via a public “PFM Reform Covenant” or agreement signed by top federal and state leaders reaffirming their support for the PFM reform agenda and fiscal responsibility. Protecting and empowering “reform champions” within government is also important: key technocrats in the MOF, OAG, and related agencies should be supported (through continued training, competitive retention salaries if possible, and political backing) so they can carry on the reform work without undue political interference. The civil service reform agenda ties in here: establishing a merit-based, professional civil service will help insulate PFM functions from political turnover. Additionally, maintaining engagement with international partners is wise even as emergency conditions wane – for example, Somalia should consider inviting periodic PEFA assessments or IMF fiscal transparency evaluations as a way to keep an external check and momentum on reforms. Finally, given the still-fragile security situation, the government should have contingency plans to keep core treasury functions running in a crisis (e.g., off-site data backups for SFMIS, alternative communication lines for TSA operations). This ensures that even if political instability spikes or a security incident occurs, basic PFM controls (like payroll and payment processes) are not completely disrupted, preserving confidence in the system.

By implementing these recommendations, Somalia can build on its commendable progress in PFM and move into the next phase of reforms with confidence. The overarching theme is consolidation and extension: consolidate the gains at the federal level by embedding them in law and practice, and extend the reforms’ reach – to sub-national governments, to new areas like procurement, and to the public through greater transparency. Somalia’s experience to date shows that even in a challenging environment, significant improvements are possible with political will and support. The next few years will be about making those improvements irreversible and truly impactful for development outcomes.

Conclusion

Somalia’s experience demonstrates that even in one of the world’s most challenging environments, committed reforms in public financial management can take root and produce tangible gains in governance and fiscal performance. Over roughly a decade, the country has moved from a position of near-total financial collapse to one where budgets are annually passed and largely adhered to, accounts are audited and published regularly, and domestic revenue is growing year by year. These are foundational steps toward a functional state and sustainable public finances.

The journey has also underscored that PFM reform is a long-term endeavor – essentially a *continuous process* that must evolve alongside the country’s broader state-building efforts. Having rebuilt the basic architecture, Somalia now faces the challenge of

deepening and expanding these reforms to deliver real benefits to its citizens. The improvements in fiscal discipline and transparency need to translate into improved public services and economic opportunities on the ground. That will require not just technical fixes, but sustained political commitment and capacity development.

Somalia now stands at a crossroads. With the HIPC debt relief milestone achieved and increasing engagement from international partners, the country has an opportunity to leverage its PFM improvements for broader development. By formalizing fiscal federalism, strengthening institutions, and continuing to insist on accountability and transparency, Somalia can build a more resilient economy and a more accountable governance system. This, in turn, will help harness the full benefits of peace and development for its people.

In conclusion, while significant challenges remain – from low revenues and capacity gaps to political uncertainties – the progress in Somalia’s PFM over the past decade provides reason for cautious optimism. The reforms have established a much-needed foundation. The priority now is to maintain momentum, guard against reversal, and use the PFM system as a tool to improve the lives of Somalis by ensuring public resources are managed wisely, shared fairly, and directed to national priorities. Somalia’s PFM transformation, still ongoing, offers valuable lessons to other fragile states: that with local leadership, international support, and a focus on fundamental principles of good financial governance, even the most fragile situations can achieve meaningful reform.

Ethical Approval and Consent

Not applicable. This research did not involve human participants, personal data, or any clinical trials requiring ethical approval or consent.

Competing Interests

The authors declare no competing interests. There are no financial or personal relationships that could have inappropriately influenced the work reported in this paper.

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Author Contributions

All authors contributed to the study conception and design. Material collection, data analysis, and initial drafting of the manuscript were performed by the lead author, with significant input from co-authors in interpreting findings and refining the discussion. All authors reviewed and edited multiple versions of the manuscript, and all approved the final version.

Data Availability

The study is based on analysis of publicly available documents and data sources, all of which are cited in the reference list. No new datasets were generated. Any quantitative data used (such as budget figures or economic indicators) can be found in the cited Somali government publications or international reports. Further details or clarifications on data can be obtained from the corresponding author on reasonable request.

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