



Recurrent Cost and Reform Finance

Federal Government of Somalia makes progress on Inter-Governmental Fiscal Federalism



Some of the participants of the Inter-Governmental Fiscal Federalism Technical Coordination (GFFTC) meeting in Nairobi.

Some progress has been made at the IGFFTC meeting in Nairobi early October 2021 during the Inter-Governmental Fiscal Federalism Technical Coordination (IGFFTC) meeting since the establishment of the committee in 2015.

The creation of five subcommittees within the Inter-governmental Fiscal Federalism Technical Coordination have been announced. The Chairman of the IGFFTC and the Director Generals of the Ministries of Finance of the Federal and the Federal Members States agreed to create five sub-committees within the IGFFTC.

The five subcommittee are as follows:

- a) Revenue Sub-Committee
- b) Accounting & Reporting Sub-Committee
- c) Budget Harmonization Sub-Committee
- d) Finance, Admin & Capacity Development Sub-Committee
- e) Research, Planning, and Monitoring & Evaluation Sub-Committee

The IGFF Secretariat Delivered the progress made in the last couple of years and highlighted the challenges encountered. Similarly, the Fiscal Federalism Expert presented to the meeting with the option of raising the equal share weight to 25% of the devisable total but with conditions or to sharply reduce and share equally among the FMSs with an opposing view that a special reserve be set aside for the three port- less states.



Participants of the IGFFTC from the World Bank and Federal Government of Somalia.

In attendance of this meeting were the Director General of Revenue & IGFFTC Coordinator, IGFFTC members, Director General of Ministry of Finance (FGS), RCRF Project Coordinator, officials from the FGS, Kristina- WB Country Manager and other representatives from the WB and the Secretariat were present and discussed issues included the Conclusion and finalization of the proposed horizontal allocation formula and the activities of the annual work plan for the next year as well as to discuss the revenue sharing formula and develop the work plan for the following year.

Minister of Finance of FGS who officially opened the meeting via virtual connection, and encouraged the need to explore ways to incentivize performance-based revenue sharing factors to cater the regional income disparity, improve domestic revenue mobilization, and modernize customs and revenue administration. In his concluding remarks, the minister encouraged the team to keep in mind to sound and act as one nation and come up with good ideas for the benefit of the country.



Minister of Finance of the FGS, Dr. Abdirahman Duale Beyleh.

The RCRF Project coordinator commended the achievements made in promoting intergovernmental relations in fiscal federalism through activities streamlined in the project which he emphasized that the success made is being emulated in other sectors like the public sector under the leadership of civil service commissions, education and health, adding that Intergovernmental Coordination platforms are taking shape in these sectors these days by achieving common understanding in key intergovernmental cooperation areas.

“The secretariat work should be back up by studies, analytical output that is based on realities on the ground, accommodating views from different sections of the societies – administrations, academicians and intellectual elites alike. This kind of approach will project ownership of the process, strengthen legitimacy of the institutions that involve implementation of this activity.” RCRF Coordinator, Abdulkadir Suleiman.

Ms. Kristina- the World Bank country manager, highlighted the importance of developing a predictable, transparent and appropriate revenue sharing formula in the state-building process but cautioned against rush decisions by the committee members. She spoke on the bases of her experience in supporting other countries in similar activities in the mining sector of the World Bank.



World Bank Country Manager, Christine Stevenson speaking at the IGFFTC meeting.

During the sessions, the World Bank team presented ideal thought on revenue sharing arrangements for Somalia with possible simulations. The idea proposes the establishment of an equalization pot into which port states contribute 20% of their international trade receipts. As shown in the presentation was that all FMSs would benefit from it, which encouraged the state of SWSS to propose an expansion of the equalization account by offering the port less states the opportunity to contribute.

Furthermore, the Director-General of the Somali Ministry of Finance underlined the importance of the harmonization efforts through the power of national unity and the value of cooperation. He further stated that the technical team could influence the politicians' decisions by promoting the national interest and reaching a consensus agreement.

The action points agreed after three days of discussion at the IGFFTC meeting in Nairobi included:

- All the committee members agreed to defer the discussion on the horizontal allocation formula to the next TC meeting and tentatively scheduled on early January, 2022;
- Each sub-committee will prepare its annual work plan activities for the FY2022, and will submit them in 15 days from the closing day of the meeting

The Federal Government of Somalia has committed itself to increase revenue, strengthen expenditure management, improve the intergovernmental fiscal framework and strengthen relationships with external development partners. Given the fact that the Provisional Constitution of the Federal Republic of Somalia encourages an intergovernmental dialogue on fiscal



Participants of the IGFFTC meeting in Nairobi.

arrangement, revenue sharing, negotiation on tax regimes, harmonization of customs and duties and mechanism of fiscal transfer, a process of intergovernmental dialogue was initiated by the Ministry of Finance on September 2015 that aimed to cover issues relate to intergovernmental matters. Since then, a show of political will and a commitment to this end between the FGS and the federal member states has been gained. Several meetings of ministerial and technical levels have been organized and consequently a better and close cooperation on fiscal federalism issues were realized. However, a lot still need to be done and deliberations on fiscal arrangements would be an on-going activity as

such a time a constitutional settlement on revenue and expenditure assignments and mechanism for resource equalization is reached.

The ultimate goal of this assignment is to strengthen inter-governmental trust, promote knowledge sharing, protect common economic space and ultimately, adopt a mechanism of fiscal arrangement that promote greater equity in resource distribution among federal and sub national governments.

The Ministry of Finance achieved significant level of cooperation with Federal finance ministries in terms of technical and ministerial level. Number of intergovernmental issues were discussed including establishment of intergovernmental technical committee that discuss ways to enhance cooperation and coordination of fiscal matters across the board and is chaired by the Federal Ministry of Finance, an agreement to harmonize customs tariffs and an agreement on exchange of information and knowledge sharing on fiscal reporting, budgeting and procurement practices.

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