

Fiscal Decentralization and Economic Growth. The Case of Mogadishu, Somalia

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Abstract: With the failure of the centralized military regime and the subsequent transitional governments, Somalia adopted decentralized federal governance following the approval of a provisional federal constitution by 825 constituent assemblies representing different clans. However, the Fiscal decentralization in Somalia is in its infancy stage, and the allocation of functional assignments among the federal and state governments is yet to materialize. Therefore, the primary objective of the present study is to examine the effect of fiscal decentralization on economic growth in Mogadishu, Somalia, emphasizing the current practice and challenges.

The study employed descriptive case study research that collected qualitative and quantitative primary data through an online mixed questionnaire and structured interview guide with the target population and analysed with due process. The study findings reveal that adequate revenue and expenditure responsibilities with some degree of fiscal autonomy to subnational governments are critical to properly implementing fiscal decentralization and improving citizens' living standards. In addition, the research found that political stalemate, weak national government, poor cooperation among different levels of government, security-related challenges, limited technical, administrative or fiscal capacities, and economic disparity are among the obstacles that hinder effective fiscal decentralization in Somalia.

Finally, the study recommends strengthening intergovernmental fiscal relations, finalizing the provisional constitution review to address financial matters, developing a revenue-sharing formula that guides fiscal transfer arrangements, enhancing the institutional capacity of subnational governments, and allocating the considered budget to the social and economic services as they are necessary economic growth.

Keywords: Fiscal Decentralization, Revenue, Expenditure, Functional Assignments, Intergovernmental Relations, Fiscal Autonomy.

I. INTRODUCTION

In the last four decades, most of the developing countries provided considered efforts towards the decentralization of all public functions from central government to lower levels of government. Somalia adopted a federal system that comprises two government structures, the federal government and federal member states, namely Puntland, Jubbaland, Southwest, Galmudug, and Hirshabelle. The federal government of Somalia is confined mainly to Mogadishu, while Somaliland has declared self-independence since the onset of the civil war.

It is widely assumed that fiscal decentralization is a possible way to escape the traps of weak and inadequate economic growth. Therefore, a growing number of countries have executed fiscal decentralization initiatives, particularly those involving the devolution of expenditure responsibilities and revenue assignments to sub-national governments (World Bank, 2000). Recently, countries from the developing world allowed subnational governments to participate in politics and economic processes due to disappointing progress with centralized governments. In addition, Sasana (2019) stated that fiscal decentralization promotes economic growth through real sector budget allocations and improves public service sector efficiency.

Fiscal decentralization is defined as the devolution of policy responsibilities from the central government towards sub-national governments with regards to spending and revenue collection (Neyapti, 2004). Fiscal decentralization can also be defined as a government program to delegate fiscal power to any regional or level of government below the center, such as provinces, cities or districts and municipalities. On the other words, fiscal decentralization refers the transfers of fiscal assignments (public functions, expenditures, and revenues) from central government to lower level of governments (Nugraha (2016).

From a global perspective, Indonesia introduced fiscal decentralization by implementing law No.22/1999 about local government and law No.25 of 1999 about the intergovernmental fiscal relationship. The country adopted a decentralized system to increase allocation efficiency, improve revenue mobilization, increase transparency and accountability, expand citizen participation in decision-making, reduce fiscal disparity among provinces, and enhance service delivery to the citizens and overall public social welfare (Nugraha 2016, p. 1-2). For better and successful implementation of sound fiscal decentralization, the country should have a robust legal framework that guides all aspects, including expenditure responsibility and revenue assignment.

Nigeria is among the African countries with a long history of adopting fiscal decentralization as a political instrument since 1960. The country comprises a of a Federal government, 36 states, Federal Capital Territory and 774 Local Governments (Annivers et al, 2004). However, Olatona and Olomola (2015) believed that the practice of fiscal decentralization in Nigeria had not attained the desired outcome of promoting economic

growth for improved service delivery due to ineffective state governments that failed to deliver effective, qualitative and affordable public services for their citizens.

In addition, Omotosso (2010) criticized that the federal government failed to emphasize the derivation principle of revenue allocation to allocate a fair amount to some regions, including the Niger delta. He further added that the people living in an area with abundant crude oil face abject poverty and other untold hardships. However, a study conducted by Akpan and Essang (2021) considered viable human and physical infrastructures amid other factors as the driving force of productive fiscal decentralization that could actually foster economic growth in Nigeria.

Ethiopia has enjoyed a federal and decentralized governance system since the 1990s based on nine ethnic regional states and two federally administrated city-states. This endeavour was led by Tigray People's Liberation Front (TPLF), which has replaced Dreg in 1991 and has been formalized in the 1994 Constitution. Ethiopia has two phases of decentralization; the first wave was aimed at creating and empowering national and regional states of governments, whereas the second phase sought to empower communities to engage in development interventions, improve local democratic governance, and enhance the scope and quality of delivery of basic services at the local level (Assefa 2015).

The economy of Somalia has been severely impacted by persistent conflict and is prone to vulnerable shocks, including droughts, floodings and the COVID-19 pandemic. Sylvester and Ade (2017) pointed out that economic growth of a country is widely determined by its socio-economic activities, which cut across government expenditure and revenue competencies, and infrastructural development. However, the government of Somalia spends an enormous budget on national defence, security, and administrative sectors with less amount in socioeconomic and productive sectors.

According to the National Bureau of Statistics report released in June 2022, Somalia's real GDP increased by 2.9% in 2021 compared with a decrease of -0.3% in 2020. The main growth drivers are the agriculture, livestock, fishing, and services sector, including telecommunications and remittances from the diaspora.

With support from development partners, the Somali government engaged in various economic reforms, including system strengthening backed by a robust legal framework that resulted in substantial gains in economic growth. However, the monetary reforms stalled, resulting in widespread dollarization, while the Somali shilling is used only for smaller transactions.

Theoretically, the present paper considers the *decentralization theorem* coined by Oates (1972), which constitutes that lower levels of government can maximize social welfare by providing public goods compared to the central/federal government. However, the central government can play a vital role in correcting market failures, ensuring equitable

distribution of resources, and stabilizing the country's macro-economy.

In addition, the public *choice perspective* believes that the state grows by increasing public spending, while public administrators' and voters' objectives differ. Public administrators, like other rational actors, try to achieve their goals. This maximizes voting through lobbying (Ismail et al., 2017). The study also looks at the principle-agent theory in the national government (principal) decides on priorities in the public sector and recognizes the sub-national governments' higher implementation efficiency (agents). In this model, the agents are accountable to the national government, not their constituents.

The provisional constitution offers a decentralized federal model that maintains a unitary structure by devolving most of the functions and responsibilities to lower levels of government. Furthermore, Article 54 grants the federal government exclusive power over foreign affairs, national defence, citizenship and immigration and monetary policy, whereas article 52 lists shared powers of the federal government and federal member states. In principle, the constitution agrees that powers and responsibilities must be given to the level of government where it is likely to be most effectively exercised.

The concept of fiscal decentralization in the context of Somalia is in its infancy stage, which requires extensive political and technical discussions among the stakeholders at all levels through a national and cooperative spirit. Therefore, the primary objective of this present article is to examine the impact of fiscal decentralization on economic growth, considering the current practice and existing challenges.

II. LITERATURE REVIEW

2.1 Introduction

The debate around the interdependence between fiscal decentralization and economic growth offers a base for the researchers and policy makers to empirically analyse how this aspect leads effective economic development. Generally speaking, there is a consensus that fiscal decentralization promotes public service delivery and efficiency of resources allocation at lower levels of the government.

The potential benefits of devolving fiscal responsibilities from the central government to the lower government are to increase efficient provision of public service, which in turn, will promote economic growth. Related to the theory, decentralization is expected to have a positive relationship with economic growth.

2.2 General Review on Fiscal Decentralization and Economic Growth

The literature on the link between fiscal decentralization and economic growth generated inconclusive results. Some studies found positive connections between the two variables and others dwell on a negative correlation due to differences of

measures and framework used by different authors. In this section, the author offers an overview of empirical studies examining the effect of fiscal decentralization on economic growth, the methods used, and a summary of the results obtained. This is not a comprehensive list of studies, but it could be the most relevant studied cited by researchers.

Abdi. Ghafar & ismail (2006) conducted study on fiscal decentralization and economic growth in Indonesia measuring fiscal decentralization approaches by adopting production function framework. The study shown a mixed result that expenditure decentralization has a positive and significant effect on economic growth, while revenue decentralization, investment, labour force, real exports, inflation and population negatively influences the growth of the national economy. In contrast, a research conducted by Sasana, (2019) in Indonesia using multiple regression found that investment (domestic and foreign) significantly and positively affects economic growth at regional level.

Similarly, Hendri, (2015) analysed the effect of fiscal decentralization on regional economic growth in Sumatera, Indonesia using OLS framework over a period 2007 – 2013. The study found that both expenditure, revenue indicators of fiscal decentralization and number of population has negative and significant effect on regional economic growth while education and employment rate are positively correlated with economic growth.

Furthermore, Kang and Arshad, (2012) attempted to identify relationship between fiscal decentralization and economic growth in Pakistan using autoregressive distributed lag model framework. the study found that fiscal decentralization positively linked to economic growth in the case of Pakistan. the author highlighted that over-dependence of provincial governments on the central government, unidentified functional and tax responsibilities may undermine the full benefits of fiscal decentralization.

Finally, Slavinskaitė (2017), prepared a paper that analyses the impact of fiscal decentralization on the economy at some selected unitary European countries for the period 2005-2014 adopting multiple regression analysis. The author found that fiscal decentralization positively impacts low level economic countries and no relationship to high level of economically developed countries.

In summary, majority of the empirical studies highlight a positive association between fiscal decentralization and economic growth, while increasing number of evidence based results show a negative correlation.

2.3 Revenue Assignment and Expenditure Responsibilities

The assignment of powers, functions and expenditure responsibilities to different tiers of government is widely considered as the most contentious issues that is highly political and sensitive in nature. The provisional constitution of federal republic of Somalia do not clearly separate

functions to federal government and federal member states while each government exercise any functions.

Federal Member States account for a growing share of public sector responsibilities for many services formerly provided by the federal government. The Provisional Constitution states that the allocation of powers and resources shall be negotiated and agreed upon by the Federal Government and the Federal Member States except in matters concerning, Foreign Affairs, National Defense, Citizenship and Immigration, Monetary Policy, which shall be within the powers and responsibilities of the federal government.” (Article 54).

For instance, the constitution of the federal republic of Nigeria assigns specific functions to each federating units into exclusive federal and concurrent legislative list. The constitutions reserves the federal government to perform functions related to external affairs, issue of legal tender currency, police, defense accounts of government of the federation, while concurrent assignments list as census, higher education, industrial development prisons, National Parks and Antiquities (Salami 2011).

In Indonesia, the federal government has the legislative responsibilities in defence, post, foreign affairs, census, current and foreign exchange, nuclear energy, shipping, air service, railways, and national highways, stock exchanges, geographical and meteorological survey, mineral oil and natural gas. Also, the provinces exercise powers over law and order, justice, highways and urban transport, agricultural extension and distribution of inputs, irrigation, secondary and higher education. Also, the local governments are allocated functions related to street lighting, solid waste management, firefighting, parks, and playgrounds (Arshad 2010).

Regarding revenue collection powers the constitution of the federal republic of Nigeria grants the federal government to collect large portion of revenues, including import, export and excise duties, mining rents & Royalties, petroleum tax profit, and capital gain tax. Also, the state government collects tax over personal income tax, stamp duties, property tax, entertainment tax, land registration and survey fees (Onuigbo and Innocent 2015). In addition, the federal government of Pakistan generate tax revenue proceeds for financing its expenditure from income tax, corporate tax, sales tax, and custom duties which are more broad and buoyant source (Arshad 2010).

According to World Bank report (2020), state governments in Ethiopia are granted exclusive power to impose taxes on farmers and individual traders, rental incomes, transport services within their respective territories and the incomes of their own employees. In addition, the constitution of the federal government of Brazil authorizes states to impose a VAT, as well as taxes on property transactions. In the case of Australia, the national government’s tax jurisdiction covers income taxes on individuals and businesses, sales tax, excise taxes, and taxes on international trade. The States’ taxes include taxes are on payrolls, financial and capital

transactions, gambling, insurance, and motor vehicles (Salami 2011).

Regarding tax administration and revenue collection at federal level is performed by Somali Ministry of Finance, particularly, the inland revenue and customs departments. Also, Benadir Regional Administration collects significant portion of local government taxes from different revenue sources, mainly in the form of administrative and user charge fees. However, revenue collection authorities have several challenges, including inadequate staff with limited capacity to effectively administer taxes, inaccurate recordings, absence of taxpayers statistics, and wide spread corruption and fraud.

Finally, the expenditure of the federal government and member states can be analyzed into four major sectors, namely security and defence, administrative affairs, economic services, and social sector. The administration and security sectors dominate the government spending with slight decrease in some years. Very little amount is devoted to social services, including health, education, and social protection, as well as economic activities, such as transportation, public utilities, and support for agriculture.

III. RESEARCH DESIGN AND METHODS

Research Design

Research design is a predetermined approach or plan for undertaking a study to examine specific testable research variables. The study employs a descriptive design that collects information from particular people to describe a phenomenon. The study selects a case study approach primarily used for practice-oriented fields, including public administration and social science. As noted by Starman (2013) case study involves an in-depth exploration from multiple perspectives of the complexity and uniqueness of a particular project, policy, institution, program, or system in 'real life.

Target Population

Population refers to the entire group of people who are under consideration. The study targeted collecting information from five federal government officials at the Ministry of Finance representing the budget department, revenue department, and public financial management reform coordination unit, those spearheads the implementation of fiscal decentralization and the overall reform agenda. The researcher also reached a representative sample of literate professional citizens in Mogadishu to ensure diversity in the profiles of respondents and obtain reliable information with minimum cost, time and energy.

Sample Size and Sampling Technique

This paper used a non-probability sampling technique, particularly the purposive sampling approach that allows the researcher to select the study participants with detailed and deep knowledge of the subject matter. This study considered a total of 85 participants (five-5 government officials and 80 literate ordinary citizens) as a reasonable sample size. The

researcher determined the sample size based on the manageability of the sample size, time available, and other factors, including pressure and stress, linked with a research job.

Data Collection Instruments

The researcher used two data collection instruments to generate qualitative and quantitative data. The researcher adopted a mixed questionnaire based on research questions and objectives to collect data necessary for the variables under study. Kothari (2007) terms the questionnaire as the most appropriate instrument due to its ability to manage a large amount of information in a reasonably short period. The questionnaire was divided into different sections; the first part looks at general information, while the rest covers aspects related to fiscal decentralization, including the current state of affairs and anticipated challenges.

In addition, the researcher designed and adopted a semi-structured interview guide to generate descriptive responses and understand the views, experiences and attitudes of the Ministry of Finance officials about the effective implementation of fiscal decentralization. These interviews typically asked government officials to describe or explain particular practices or issues concerning implementing fiscal decentralization. Although the interviews took longer, it allowed the researcher to collect detailed information that could not obtain through any other instrument.

Data Analysis and Presentation

Data analysis of this present study involved both qualitative and quantitative methods. Both approaches enable the researcher to obtain detailed and comprehensive information that offers data for informed decision-making. The researcher used descriptive statistics, particularly frequency distribution, percentages, means, and standard deviation, to analyse quantitative data using Microsoft Excel and IBM SPSS Statistics version 28.0.0.0 (190).

Moreover, the primary qualitative data from Ministry of Finance officials and ordinary citizens through open-ended questions were analysed and transcribed in a thematic approach. The rationale for choosing the thematic approach was its flexibility and being best suited to the case study—the thematic approach is considered user-friendly and suitable for summarizing key patterns of complex data.

Ethical Considerations

According to Hickman (2010), ethics is a code of conduct based on morally sound decisions that serve as a compass that guides an organization or individual. During the fieldwork, the researcher asked the participants about informed consent by voluntarily participating in the research and spelt out the aim of the research work, duration, use of the results purely for academic purposes, and their freedom to withdraw at any time.

Most importantly, the researcher employed preventive measures to ensure the confidentiality and anonymity of the participants, including non-disclosure of all identifiers by using common language and descriptions to prevent any unforeseen risks.

IV. RESEARCH FINDINGS

In this section, the researcher analysed the responses from the literate citizens through the online questionnaire that contained general information and aspects related to fiscal decentralization and economic growth, emphasizing the current state of affairs and the challenges.

The below table shows that more than 52% of the ordinary citizens who participated in the study have lived in Mogadishu for over ten years, 35% lived between 5-10 years, and almost 13% lived for less than five years. The table also indicates that 61% of the participants said it was convenient to pay taxes, and the remaining 39% believed the opposite. This means that the federal government of Somalia made drastic revenue collection and administration improvements. The same table demonstrates that the majority of the respondents representing 67.5%, preferred the federal political system, almost 29% voted decentralized unitary system, and very few participants favoured the confederation political system. The findings agree with several other studies that concluded the federal model is best suited to Somalia to avoid conflicts and improve public service delivery at the lowest level.

TABLE I GENERAL INFORMATION

Statement Description	Frequency	Percentage
<i>Years of Residence in Mogadishu City</i>		
10 Years and Above	42	52.5
1-5 Years	28	35
5-10 Years	10	12.5
Total	80	100
<i>Convenience to pay different types of government tax</i>		
Yes	49	61.2
No	31	38.8
Total	80	100
<i>Preferred political system</i>		
Federalism	54	67.5
Decentralized Unitary System	23	28.7
Confederation	03	3.8
Total	80	100

TABLE II. FISCAL DECENTRALIZATION AND ECONOMIC GROWTH IN MOGADISHU

Statements	N	Min	Max	Mean	St. Deviation
Shifting financial responsibilities to lower levels of government	80	1	5	3.79	1.144

improves social welfare and efficient allocation of public resources and services.					
Citizen engagement and participation would increase transparency and accountability in revenue collection and management.	80	1	5	3.90	1.327
Under fiscal decentralization subnational governments would have better information about the local preferences and citizens could have voice for decision making.	80	1	5	3.58	1.123
Increase of government spending on social and economic services promises better economic growth.	80	1	5	3.85	1.332
Empowering subnational governments to give appropriate and adequate expenditure and revenue responsibilities improves living standard of citizens.	80	1	5	3.65	1.223

As shown in the table above, the researcher asked the participants five questions in statement form to understand how fiscal decentralization affects economic growth in Mogadishu, Somalia using five-point Likert scale intervals.

In the first statement of the above table, the mean is 3.79, which means that the vast majority of the study participants agreed to shift the financial responsibilities and power from the federal government to lower levels of government to improve social welfare and efficient allocation of public resources. In the second statement, most respondents agreed at a 3.90 average scale that citizen engagement and participation increases transparency and accountability in revenue collection and management.

In addition, the study found that subnational governments could better tailor the local preferences of allocating significant budget on social and economic services. Therefore, they should be allowed adequate expenditure and revenue responsibilities to improve the living standard of citizens.

The below table indicates that the majority of the participants, 45%, replied yes that the Somali government has the required institutional arrangements and capacity to coordinate and control proper implementation of fiscal decentralization, whereas 29% had doubts, and 26% replied no. Furthermore, 42.5% of the respondents answered that citizens are willing to pay the tax, 22.5% replied maybe, and 36% firmly refused that citizens are willing to pay tax and the government records it accurately.

TABLE III. CAPACITY OF THE GOVERNMENT AND CITIZEN'S WILLINGNESS TO PAY TAXES

Statements		Response Category					
NO		Yes		May Be		No	
		N	%	N	%	N	%
1.	Somali has the capacity and institutional arrangements to coordinate and control proper implementation of fiscal decentralization	36	45	23	29	21	26
2.	Somali citizens are willing to pay the tax and the government records it accurately.	33	41.5	18	22.5	29	36

TABLE III. RESPONDENT'S VIEW ON THE CURRENT NATURE OF FISCAL DECENTRALIZATION IN SOMALIA

Statements		Response Category									
NO		SD		Disagree		Neutral		Agree		SA	
		N	%	N	%	N	%	N	%	N	%
1.	SNGs in Somalia have sufficient resources to meet their expenditure necessary to better economic performance.	12	15	40	50	9	11	12	15	7	9
2.	State governments in Somalia currently enjoy fiscal autonomy that accelerates economic growth.	6	7.5	36	45	10	12.5	19	24	9	11
3.	Fiscal transfer from the federal government to subnational units significantly contribute to sustainable economic growth and poverty reduction efforts.	4	5	12	15	13	16	44	55	7	9
4.	The government uses ideal system and procedures for revenue collection and expenditure management to promote transparency and prevent corruption	14	17.5	14	17.5	18	22.5	26	32.5	8	10

As shown in the first statement of the above table, 65% of the participants disagreed that subnational governments have sufficient resources to meet their expenditures, 11% were neutral, and 24% agreed. According to the second statement, 52.5% disagreed that the state governments in Somalia enjoy some degree of fiscal autonomy, while 35% agreed on the existence of fiscal autonomy.

The third statement in the above table reveals that 64% of the respondents agreed that fiscal transfer from the federal

government to subnational units significantly contributes to sustainable economic growth and poverty reduction efforts, 24% disagreed, and 16% were neutral. Moreover, 42.5% of the study participants agreed that the government uses ideal systems and procedures for revenue collection and expenditure management, 35% disagreed, and almost one fold of 22.5% was neutral.

TABLE IV RESPONDENT'S VIEW ON THE CHALLENGES OF FISCAL DECENTRALIZATION IN SOMALIA

Statements		Response Category									
NO		SD		Disagree		Neutral		Agree		SA	
		N	%	N	%	N	%	N	%	N	%
1.	Somali political leaders lack the required commitment towards complete fiscal decentralization to empower subnational governments.	7	9	4	5	9	11	38	47.5	22	27.5
2.	Horizontal fiscal transfer discourages strive for an increased domestic revenue mobilization and creates overdependence.	3	4	7	9	35	44	30	37	5	6
3.	The absence of uniform tax rate across the country undermines the full benefits of fiscal decentralization.	4	5	7	9	11	14	45	56	13	16
4.	The provisional constitution clearly separates functions among different levels of government	12	15	14	17.5	10	12.5	30	37.5	14	17.5

The first question in the above table reveals that 75% of the respondents agreed that Somali political leaders lack the required commitment towards complete fiscal decentralization to empower subnational governments, whereas 12% disagreed, and 11% found neutral. Furthermore, the majority

of the participants, 44% and 43%, either agreed or were neutral that the current horizontal fiscal transfers discourage increased domestic revenue mobilization and create overdependence, while 13% disagreed.

The third statement indicates that most of the participants representing 72%, agreed that the absence of a uniform tax rate across the country undermines the full benefits of fiscal decentralization, while the remaining 28% were either neutral or disagreed. Finally, 55% of the participants agreed that the provisional constitution of the federal government of Somalia separates functions among different levels of government, 33% disagreed, and 12% decided to be neutral.

In addition, the respondents were asked to answer what they think about the transparency of the federal government of Somalia in managing public resources and the level of government responsiveness to the needs of the citizens. Most participants stated that public financial management transparency is relatively poor and needs significant improvement by adopting preventive measures on corruption and fraudulent practices and regularly disclosing detailed and timely financial information to the public. Regarding the government's responsiveness to citizens' needs, more than twofold of the respondents answered the government is not responsive, and the remaining onefold believe that the government responds to the needs of the citizens on most occasions.

Qualitative Analysis of Interview Results

The government officials who participated in the interview proposed agreed-on revenue allocation formula, clear separation of powers, harmonizing the legal infrastructure, good governance, public awareness, population census, and state demarcation as necessary tools for fiscal decentralization to flourish. In addition, the officials believe that fiscal decentralization leads to economic efficiency through equitable distribution of resources that address poverty concerns and regional disparity and promotes federalism that accommodates different interests to achieve political and economic stability in the long run.

Therefore, the benefits of fiscal decentralization override with it is cost. In responding to the revenue and expenditure responsibilities among different levels of government, the Ministry of Finance officials proposed that the federal government manage public debts and borrowing, foreign direct investment, customs duty, and natural resource management, including fisheries and oil extracting. In addition, the participants agreed that the existing federal member states to continue collecting their local taxes and spending responsibilities while the revenue-sharing formula would be a joint effort led by the federal government. Finally, the study found political stalemate, weak national government, poor cooperation among different levels of government, security-related challenges, and economic disparity are the significant challenges that could hinder the effective implementation of fiscal decentralization in Somalia. Notably, the federal government made significant progress in convening regular intergovernmental meetings at technical and ministerial levels that deliberate fiscal matters.

V. DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Discussion of Findings

The study found that effective fiscal decentralization requires allocating adequate revenue and expenditure responsibilities to subnational governments. This is in line with the recommendations made by the prominent scholars and development partners in the World Bank report (2020) that most public functions, including internal security, education and healthcare services, should be assigned to subnational governments where the vast majority of the population lives. Therefore, subnational governments should be allowed to collect a large portion of the tax, mainly from income/payroll tax, property tax, sale of goods and services, and user charge to finance the assigned tasks. The study also shows that citizen participation in decision-making is critical to maximizing social welfare by bringing the government closer to the grassroots level.

Based on the information received from the Ministry of Finance officials through the interview, good governance, intergovernmental coordination, clear demarcation of the states, accurate population census, and superficial division of taxing and spending among governments are significant to establishing a robust decentralized fiscal system. In theory, fiscal decentralization contributes remarkably to stabilizing the country politically and economically, accommodating different political interests, achieving fiscal autonomy, improving service delivery, and promoting efficiency and effectiveness.

The implementation of effective fiscal decentralization in Mogadishu, Somalia, is quite challenging due to several factors. The interviewed officials believed that strengthening intergovernmental relations at all levels could help solve the problem and lead to sound implementation of the reform agenda over national port management, revenue allocation formula, and fiscal transfer arrangements, among others.

This study found that the federal government's responsiveness to the needs of citizens and transparency in public financial management is relatively weak due to the absence of robust accountability frameworks. In Somalia, politicians often react to the events shared through social media that damage the reputations of government institutions. In addition, a substantial number of participants believe that the government's taxing system is quite convenient due to revenue management and administration automation.

Conclusion

Proper implementation of fiscal decentralization in Somalia requires regular cooperation between the federal government and member states to discuss and agree on issues of national importance, including resource sharing and allocation of powers. However, constitutional ambiguity regarding the distinction of powers remains controversial, where each entity performs any function.

A significant finding of the study is that Somali political stakeholders consider federalism as a viable option that accommodates the interest of varying groups and achieves decent life in the mainstream society through public service delivery. The study observed that corruption, political stalemate, weak national government, limited technical, administrative or fiscal capacities, and economic disparity are among the challenges that hinder effective fiscal decentralization in Somalia.

The researcher suggests future studies should empirically examine subnational governments' revenue and expenditure ratio to the national budget and annual gross domestic product. Also, it's essential future studies to explore how population, human capital, investment, and employment rate impact economic growth as controlling variables.

Recommendations

- The federal government should finalize the constitutional review process that clarifies functional assignments among different levels of government and addresses key financial constitutional matters, including revenue sharing and taxing powers.
- Establish the revenue allocation and fiscal federalism commission to develop appropriate revenue sharing formula based upon agreed parameters, including population, landmass, poverty index, development indicators, absorption capacity, social service need, equitable share, and many more.
- Enhance the capacity of subnational governments in revenue collection and management to address the technical, financial, and administrative capacity.
- Allocate considered budget to the social and economic services by boosting the domestic revenue mobilization through improved tax administration, fighting corruption, and using technology.

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