

# Accountability in the Taxation System in Somaliland

There are several serious challenges to accountability within the taxation system in Somaliland. These include lack of a public dialogue, transparency, and proper feedback and enforcement mechanisms. The low accountability reinforces the low trust between the government and its citizens. This is particularly so in certain regions, such as Sool, where the government presence is weak and disputed. At the same time, the fact that many taxpayers are willing to pay tax even when they are not forced to suggests that there are small signs of trust. This indicates that there is both potential and great room for improvement, which can be developed through civic education, greater access to accountability measures for ordinary citizens, and continued investment in the tax reforms that are in progress.

## Brief Points

- Somaliland's tax system is suffering from complex and outdated tax laws as well as an uncoordinated tax collection apparatus that lack proper implementation procedures and the capacity to train staff.
- The government's weak enforcement ability makes it dependent on community actors, such as clan elders, business owners and religious leaders, for the implementation of tax policy.
- There are four main reasons behind taxpayers' motivation to pay tax: to avoid repercussions, out of loyalty to an internationally unrecognized state, to support the delivery of some basic services and to support a government that maintains peace and security.
- Tax compliance is closely related to the level of power that taxpayers have in avoiding tax payment, particularly the tax paid by large corporations, which does not reflect actual business size and earnings.

**Ebba Tellander**  
**Mohamed Aden Hassan**

*Peace Research Institute Oslo (PRIO)*  
*Goldsmiths, University of London*

## Taxation at the Core of the State-Citizen Relation

Taxation goes to the core of how the government and its citizens relate. The collected tax forms the financial basis of states and enables them to provide security and public services, such as health, infrastructure, and education, as well as stability and order. When decisions on taxation levels and plans for revenue spending are to be made, it might spark societal discussion between taxpayers and the government. Such negotiations have the potential to promote accountability within the formal state-citizen relationship, i.e. when policymakers and implementers are answerable to those affected by their decisions. Furthermore, successful tax collection will enhance the state's institutional capacity, which further facilitates accountability procedures. Therefore, the status of accountability in the taxation system can tell us a great deal about the relations between the state and its citizens, and vice versa.

Somaliland has a diversity of systems for the organization of society, such as a formal governance structure, including an elected government and a modern judiciary, the 'traditional' system of clan governance and law (xeer), and Sharia. These systems have a parallel existence and they complement, interact and contradict each other in complex ways. By describing and investigating the status of accountability within the taxation system, this study aims to shed more light on the status of the formal state-citizen relationship, including how traditional accountability systems play into the formal structure. The research is based on more than 40 interviews of taxpayers, tax collectors and officers employed in relevant state institutions in main cities in the six regions of Somaliland (Awdal, Maroodi Jeex, Sahil, Togdheer, Sool and Sanaag).

## Taxation in Somaliland

In Somaliland the tax system was first introduced by the British Protectorate administration, but Somalilanders considered tax an unjust imposition, which they resisted. Since then the tax system has undergone major changes, but at the same time, the laws have not changed as much as the economic realities, as most of them are a legacy from the time when Siad Barre ruled Somalia, including Somaliland, from 1969 until the start of the civil war in 1991.

Today, Somaliland does not have a formal coherent tax policy and Somaliland's duty and tax collection is a patchwork that is lacking proper legal and institutional support. The tax base is small because of the large informal economic sector, the low economic growth, and the fact that the largest corporations do not pay tax according to their earnings. In recent years the face of tax collection has begun to shift, from informal systems to more professional and automated systems of collecting taxes. Part of this reform is a decentralization process, where power and tasks of the central government are being handed over to local authorities. While systems and structures have professionalized over the last decade, the reforms are far from complete. Thus, implementation remains a problem and the tax revenue remains low. In turn, the government does not have sufficient sources of income to provide the services needed.

The poor service delivery decreases taxpayers' motivation to pay tax and many taxpayers attempt to evade tax, while others only pay to avoid repercussions such as the closing down of businesses, or, as the practice is in some towns, the removing of doors of houses. As an illustrative example, several individuals point out that they pay road taxes because they do not wish to be harassed when driving on the road. At the same time, they indicate that while they pay tax the conditions of the roads are worsening, so they do not have any trust that the money reaches where it should. A crucial factor here is the level of power that taxpayers have in avoiding tax payment. For instance, tax paid by large corporations does not reflect actual business size and earnings, as they have the resources, networks and lobbying capabilities necessary to exempt full taxes.

## Lack of Sufficient Information

Accountability within the taxation system is low and there are many factors contributing to this. Taxpayers interviewed for this study indicate a serious lack of sufficient information regarding their rights and responsibilities and, particularly, about what happens with the tax money after it has been collected. The low level of transparency creates doubts among taxpayers on whether the raised tax money has any impact on public goods, especially considering the poor quality of goods delivered. Instead, many fear that most of the raised revenue is being lost to corruption. In some cases, as Faarah Nuur

Askar describes, the practice of corruption takes place in front of the taxpayer's eyes:

*Sometimes when the tax collectors are collecting tax from you they divide the money into two parts; one part which is written on the receipt and another part which is kept in their pockets.*

Faarah Nuur Askar,  
small business owner, Hargesia

Even though the new tax reforms are meant to counter embezzlement, by beginning to introduce more formalized and professional tax collecting procedures, corruption is still a serious problem, related to incompetent management practices and underpaid tax clerks who often lack proper training.

Corruption, poor administrative procedures, and the many untrained tax collectors who do not understand the law and implementation procedures hamper the transparency of the system. Moreover, tax laws are complex and outdated and there are coordination problems between different tax collecting departments. As a consequence, the tax collecting apparatus fails to enforce proper taxes and tariffs. For example, all mobile phones have the same tariff in spite of the many different models and the large price range between them. In addition, there is no requirement for business owners to keep the records necessary for correct tax assessment. In this context, unskilled tax clerks calculate tax based on how successful the shop looks. As one of the interviewees who owns several shops indicated, this can mean that the shop that makes least profit but looks nicest is charged a higher rate than the more successful shop. The incoherent and arbitrary aspects of tax collection breed corruption and make it difficult for taxpayers to access information, which decreases their confidence in the taxation system.

## Weak Accountability Procedures

Another factor behind the low accountability is the absence of public dialogue on taxation policy and practice. There have been some attempts to disseminate general information about tax and its purpose among the public, through TV and radio information campaigns, from the loud speakers on top of cars, or meetings on tax organized by local governments. However, the state's communication attempts appear to be only one-sided, with no real possibility for taxpayers to

provide feedback or receive relevant information on actual spending of the raised revenue. For example, local meetings focus on making the public ready for policy implementation rather than creating a space for dialogue. Taxpayers we talked to called for an improved communication, as Abdilkadir Ali Suldan explains:

*It would have been better to discuss tax issues with the local government so that we could ask questions at the end of the year on what they promised to implement [...] We would be glad if cooperation is improved so that information will be shared, plans will be discussed in advance and issues of tax will be negotiated and agreed.*

Abdilkadir Ali Suldan,  
store owner, Erigavo

A contributing aspect to this absence of public dialogue is that though taxpayers are unsatisfied with the current tax policy, they do not join forces in an attempt to influence that policy. Part of the reason behind this is the weak institutions within the formal political system alongside the dominating role of the clan system in the Somaliland society, as it means that people are unaccustomed to mobilization beyond the level of the clan. The lack of well-established enforcement mechanisms, such as elections where taxation is part of the debate, journalistic investigations into the taxation structure, and cases related to tax in the court system, further counters taxpayers' ability to raise their voice and sanction power holders. Furthermore, the accountability institutions that exist within the state structure, such as the Anti-Corruption Commission and the National Audit, have not been properly enforced due to a weak government, the lack of a clear and coherent judiciary supporting them, non-independency from the executive, the absence of stable long-term funding and the non-existence of structures that hold these institutions accountable.

Instead, taxpayers' expression of dissatisfaction is mostly contained to the negotiations between taxpayers and tax collectors. Here, taxpayers may turn to more informal accountability mechanisms. As Mohamed Said Barkhad describes it:

*According to our context as we know it, issues are solved with the help of friendship; you can go to a friend of*

*yours who has influence on the decision-making and tell him to assist you. You will go together with your friend and request the heads to cut some of the tax.*

Mohamed Said Barkhad,  
businessman, Boroma

These networks of friends are closely linked to clan loyalties. Clans' dissatisfaction with taxes might also take violent forms. Clashes between tax collectors and taxpayers erupt at times, especially in the non-central regions, and these conflicts are settled through negotiations and compromises on how the tax should be implemented in that area. Traditional authorities such as clan elders are likely to play a part in such negotiations. Thus, where the state structure is weak, other traditional forms of accountability find space to intermix with the formal structure.

### Alternative Providers of Services

The low level of accountability is connected to the lack of relevance that the government has in taxpayers' everyday life. The few public services delivered are of low quality and unequally distributed. Thus, in order to fill the void, other actors such as 'the community' – clan elders, religious leaders and business owners – step in to provide the services needed. This further delegitimizes the government in the eyes of the taxpayers. As the businessman Mohamed Bashir Farah illustrates:

*We hire guards to keep the security of our business [...] we also pay for waste management to Horseed [waste management company]. We manage all this by ourselves, while the government may spend tax money elsewhere, such as on the salary of the President.*

Mohamed Bashir Farah,  
Borama

While these community actors are providing important services, these efforts are extremely decentralized and uncoordinated, and there are often issues with the quality of such activities, such as when roads are built by the community without sufficient knowledge and equipment. Furthermore, large business owners often use their contribution to service delivery as an argument to exempt tax payment.

### Regional Disparities and the Case of Sool

The challenges in the relationship between the Somaliland state and its citizens differs geographically, and this is particularly problematic in the eastern regions. Here, we explore this through the case of Sool, a disputed region between Somaliland, Puntland, the federal Government of Somalia and the autonomous but unrecognized Khatumo state. Somaliland regained presence in Sool as late as in 2007. Therefore, many of the residents, depending on clan affiliation, do not recognize the Somaliland government. In addition, many residents believe they do not have sufficient access to national resources. This notion of injustice is increased by the fact that INGOs and the UN seldom include Sool in their support because of real or perceived security concerns, which creates further discrepancies between regions. The consequence is economic marginalization, further accelerated by the loss of qualified people from the region as they move out in search of livelihood opportunities.

The Sool residents' different and shifting loyalties and their distrust in the Somaliland government have major consequences for their willingness to pay tax. Omar Khadar Abdulle explains the challenges they meet when attempting to collect tax in the region:

*It is difficult to collect tax in that kind of diversified environment. Sometimes when you ask them to pay legal taxes, they refuse you and tell you that this system is not theirs.*

Omar Khadar Abdulle,  
local government, Lasanod

The resistance by certain clans, together with the weak government presence, make tax collection difficult to enforce. To reduce the risk for violence to erupt, tax collection ceases altogether at certain periods of time and sometimes tax is only collected from certain actors. While the Sool case may be exceptional, it illustrates the point that in order for government interventions to be implementable, support of the local community, and in particular clan, business and religious leaders is needed. The success of any initiative will depend on whether the interests of the government and local actors match, which will vary from one region to the other and from one community to another.

### Small Signs of Trust in Taxpayers' Motivation to Pay Tax

In a context where the state is weak, enforcement alone cannot explain the fact that many citizens still do pay their taxes. In fact, many tax collectors that we talked to indicated that taxpayers' willingness to pay tax is on the increase, including in the eastern regions. Thus, there is flexibility in people's attitudes and there is a low but existing willingness to pay tax. One of the biggest motivations behind tax compliance, according to taxpayers, is the improvement in service delivery that they can see with their own eyes, as Sahra Rooble Farah illustrates:

*Ambulances used to stay very far from our homes but now [...] roads were constructed, vehicles for managing garbage were brought, and rubbish is collected every morning by the government.*

Sahra Rooble Farah,  
shop owner, Lasanod

In this way the perception of the government and its performance becomes a matter of expectations, as one taxpayer puts it: "having nothing is worse than this" (Yasin Muse Matan, Erigavo). A particularly important public good that many taxpayers referred to is the peace and stability that they enjoy in Somaliland. Muse Ahmed Egal explains:

*What makes us different from the south – and drives our economy – is the tax that pays the salaries of our soldiers [and] policemen.*

Muse Ahmed Egal,  
Hargeisa

In fact, the reason why the government at all received the necessary financial support in

the beginning of its existence was because the business community wanted to support the successful de-militarization of clan militias by offering individual militiamen employment, often as soldiers or policemen, on the condition that they handed in their weapons (Eubank 2012).

Several taxpayers that we talked to also seemed to pay tax from a sense of loyalty to the Somaliland state, further amplified by its lack of international recognition and the relatively low level of foreign support that it is receiving. This loyalty appears to be related to an emerging national identity as part of the ongoing nation-building process, but also closely connected to clan loyalties and whose clan is represented in the government at any given moment. According to the same logic, the lack of foreign support also seems to make taxpayers more inclined to accept that the government cannot perform public services to the expected standard at this point in its history, but that with time, the government's ability will improve.

### The Way Forward and Recommendations from the Somaliland Public

Even though the Somaliland state-citizen relationship suffers from a range of serious challenges, it is important to continue building on the small signs of trust that do exist. In fact, as Eubank (2012) has pointed out, Somaliland has a beneficial starting point. Because the government is receiving less external support, relative to many other neighboring countries, it is more dependent on the revenue it has raised. The reliance on tax, in turn, gives the citizens a relatively stronger bargaining chip towards the state, which provides greater prospects for holding state institutions accountable. Thus, there is both potential and great room for improvement within the taxation system.

Many interviewees, while referring to the many challenges, came up with suggestions for how to improve accountability and increase the level of social trust within the taxation system. The recommendations in this policy brief are built on these suggestions brought forward by Somaliland citizens.

- Develop civic education on accountability in the taxation system, both included in the curriculum in primary schools and in adult education. This would enhance the public's understanding of their rights and responsibilities within the taxation system.
- Continue the reformation of the taxation system in the direction of more modern tax laws, proper training of staff, higher salaries of tax collectors and increased coordination within the tax collecting apparatus.
- Develop a clear complaint procedure, which is enforceable by law and properly implemented, that taxpayers can attend to when they feel injustice is done to them.
- Establish community committees and a practice of regular meetings with the public with the aim of increasing transparency and dialogue at different stages of the taxation system, including policymaking and implementation. ■

### Further Reading

Campos, J. T. (2016) 'On Taxes and Suspicion: Ambivalences of Rule and the Politically Possible in Contemporary Hargeisa, Somaliland', *DIIS Working Paper* 2016:5. Copenhagen: Danish Institute for International Studies.

Eubank, N. (2012) 'Taxation, Political Accountability and Foreign Aid: Lessons from Somaliland', *Journal of Development Studies* 48(4): 465–480.

### THE AUTHORS

Ebba Tellander is a Research Assistant at Peace Research Institute Oslo (PRIO).

Mohamed Aden Hassan is a Research Fellow at the Centre for Urban and Community Research (CUCR), Goldsmiths, University of London.

Thanks to Ahmed Atteye for research assistance with the collection of data.

### THE PROJECT

This Policy Brief is part of the project 'Dimensions of Accountability in Somaliland', funded by Mott MacDonald/DFID. The one-year study focused on criminal justice, taxation and health care and was conducted by PRIO in partnership with researchers from Somaliland. For more information, see [www.prio.org/accountability](http://www.prio.org/accountability).

### PRIO

The Peace Research Institute Oslo (PRIO) is a non-profit peace research institute (established in 1959) whose overarching purpose is to conduct research on the conditions for peaceful relations between states, groups and people. The institute is independent, international and interdisciplinary, and explores issues related to all facets of peace and conflict.