



INCREASING GOVERNMENT REVENUE THROUGH INTEGRATED FINANCIAL MANAGEMENT SYSTEM CASE OF FEDERAL GOVERNMENT OF SOMALIA

Abdijabbar Ismail Norⁱ

Lecturer, Faculty of Economics
and Management Science,
Somali National University,
Somalia

Abstract:

The purpose of this study was to investigate the contribution of integrated financial management system to the government revenue (the case of federal government of Somalia). The study adopted descriptive research design and the data is collected from the federal government budgets, IMF and World Bank reports and other various research journal articles. The study found that the revenue of federal government of Somalia for the years (2013-2018) has increased due to the adoption of the SFMIS. The study revealed that the domestic revenue increased from US\$ 69.2 in 2013 to US\$ 84.3 in 2014 and decreased from US\$ 114.3 to US\$ 112.7 during 2015 and 2016 respectively due to the shortage of revenue collection. There is also an increase in domestic revenue from US\$ million 112.7 to US\$ million 142.6 2016 /2017 respectively. The change in amount is 29.9 In US\$ million and 26.5 in Change %. In addition, the domestic revenue has increased 29.9 In US\$ million between 2017 and 2018 from US\$ million 142.6 to US\$ million 172.5 and it is projected at US\$ 189 million which means 10.09% increase in fiscal year 2019. Therefore, Somali financial management information system (SFMIS) had very positive impact on domestic revenue, which has grown from US\$ 114.2 million in 2016 to US\$ 172 million in 2018 and is projected at US\$ 189 million in fiscal year 2019. The study also revealed the Donor fund received by the federal government of Somalia has increased (US\$ 41.67, US\$ 61.0, US\$ 26.9, US\$ 58.4, US\$ 105.6 and US\$124.6) from 2013- 2018 in increasing rate though it has dropped in 2015 and it was estimated US\$ 154.3 in 2019 due to the effectiveness of Somali financial management information system (SFMIS) which built the confidence and relationship with Development Partners (DPs) that public fund will be managed in a transparent, equitable and accountable manner. The study concluded that the revenue of federal government of Somalia for the years (2013-2018) increased and projected to increase in fiscal year 2019 due taxes, increase in collections, license fees for telecommunications

ⁱ Correspondence: email abdijabbar57@gmail.com

and fisheries, control in federal government expenditure through a Treasury Single Account (TSA) in the Central Bank in which all revenue collections and authorized payments are made with regular bank reconciliation.

Keywords: integrated financial management system, domestic revenue, total revenue

1. Introduction

An integrated financial management system (IFMS), also known as integrated financial management information system, is an IT-based budgeting and accounting system that manages spending, payment processing and reporting for governments and other entities. (Aminatu, 2012)

According to Hendriks (2012), an IFMIS is an information system that tracks financial events and summarizes financial information. It supports adequate management reporting, policy decisions and the preparation of auditable financial statements.

The effective public financial management (PFM) is fundamental to the development and growth of economy. One reason PFM is so essential is that the tax-paying citizens of any country expect their public finances to be well-managed. They expect them to be allocated effectively, used to deliver quality services, and to provide a secure and stable environment in which society may exist and prosper. They also expect finances to be collected and expended fairly and according to the laws, with surpluses, deficits and debt levels understood and in control. (CAPA, 2013)

Governments are responsible to their citizens and taxpayers for implementing effective systems of public financial management and for utilizing those systems to safeguard, and ultimately enhance a country's economic conditions. (CAPA, 2013)

The Federal Government of Somalia has prioritized Public Financial Management (PFM) integrity at the top of the country's development agenda to build citizens' confidence and relationship with Development Partners (DPs) that public fund will be managed in a transparent, equitable and accountable manner. (WB-SPFMCSP, 2013)

December 12, 2013, Public Financial Management Capacity Strengthening Project Financed by the Somalia Multi-Partner Fund (MPF) has being approved to establish and strengthen institutional capacity for the management of public funds in central finance agencies and targeted sectors. This was the first project after almost two decades of non-engagement and became effective on January 17, 2014, within one month after being approved by the World Bank on December 12, 2013 and was implemented within a short timeframe of two years, three months with a satisfactory overall outcome. The in-built budget controls and audit trails in addition to the reporting capability of the Somali Financial Management Information System (SFMIS) has provided the basic foundations for improving budget management and making key public finance information readily available to the public to increase transparency and accountability.

The strengthened control, especially for payroll, has provided the assurance framework for the Recurrent Cost and Reform Financing (RCRF) project. (WB-SPFMCSP, 2016)

In 2014, Federal government adopted SFMIS which is computer based software that facilitates the management of financial information. SFMIS is user-friendly, secured and focuses on capturing budget, treasury functions, payroll, tax collection and financial reporting. It also provides users with access privileges based on their respective level of authority to main internal controls (WB-SPFMCSP report, 2016).

The SFMIS provided a system with adequate audit trails to identify administrative accountability in processing transactions. Improved timeliness and accuracy of transaction processing together with comprehensiveness of financial reports with the adoption of Treasury Single Account (TSA) in the Central Bank through which all revenue collections and authorized payments are made with regular bank reconciliation advanced credibility to the completeness and accuracy of financial reports for decision making and accountability. Cash handling which pose high risk of leakages was avoided through direct 'bank' transactions. Budget and commitment controls introduced to limit the arrears through embedded system control features of the SFMIS. Also, applying internationally acceptable standards and practices improved fiscal discipline and promoted transparency and accountability (WB-SPFMCSP, 2016).

In 2017, the FGS introduced reform including: (i) shift from cash-based payment of salaries and allowances to bank account payment (ii) bringing revenue collection at Mogadishu International Airport (visas) and Ministry of Industry and Commerce (business licenses) under MoF control. This supported that Federal Government focus on payroll accountability, fiscal stability, revenue mobilization, budget execution and inter-governmental relations (World Bank report, 2018).

2. Purpose of the Study

The main purpose of this study was to assess the Contribution of Somali financial management information system (SFMIS) to the revenue in the case of Federal Government of Somalia.

3. Literature Review

Muigai (2012) conducted research on the effects of Integrated Financial Management Information Systems (IFMIS) on the financial management of public sector in Kenya through survey and collected data through questionnaire and found out that IFMIS has greatly contributed to improvement in financial management in Kenya. The study mentioned that The IFMIS provides a critical financial management solution for countries where administrative and economic infrastructure is obsolete, or has been destroyed through war and years of conflict.

Cherono (2016) assessed the effects of IFMIS on accounting operations of government Agencies in Kenya. By adopting descriptive research design and targeted

59 government agencies in Kenya by collecting data through questionnaires and secondary sources and found that 58% changes in dependent variable (accounting operations of government agencies in Kenya) is contributed by the independent variables of the study (IFMIS system).

Another study by Kaindi (2012) revealed that IFMIS has any significant impact on internal financial control systems and financial performance in public institutions. The research findings showed that IFMIS can greatly enhance public financial management by enhancing credibility and confidence of the budget by ensuring that it is detailed and transparent with all the financial information.

An integrated information system for Public Financial Management (PFM) has been found to be a very important tool for economic growth and development by ensuring that government is able to mobilize revenue, manage, and appropriate public resources in a proper and in efficient way with the goal of enhancing service delivery to the citizens. (Shah, 2006)

According to the (USAID, 2008) there is broad agreement that a fully functioning IFMIS can improve governance by providing real-time financial information that financial managers can use to administer programs effectively, formulate budgets, and manage resources.

Sound IFMIS systems, coupled with the adoption of centralized treasury operations, can help developing country governments gain effective control over their finances, and also enhance transparency and accountability.

4. Methodology

This study applied descriptive research design particularly case study and the data is collected from the federal government budget reports, IMF and World Bank reports and other various research journal articles.

5. Results

This part is a presentation and analysis of the data obtained from the summary of revenue from (2013- 2019). It shows the summary of revenue (Domestic and Donor funded). Domestic revenue can be categorized tax revenue and non-tax revenue while Donor fund can be categorized bilateral and multilateral. The table below presents the data obtained.

Table 1: Summary of Revenue for (2013-2019) Budgets in US\$ Million

In US\$ Million	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Revised	2019 Estimates
Total Revenue	110.83	145.3	141.2	171.1	248.2	297.1	344.2
Domestic Revenue	69.16	84.3	114.3	112.7	142.6	172.5	189.9
Tax revenue	65.05	73.8	82.4	88.6	112.0	127.9	135.2
Taxes on income, profits, and capital gains	0.69	1.1	1.9	2.4	3.4	7.2	9.1

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Taxes on goods and services	5.63	4.8	4.8	2.9	8.9	19.4	22.0
Taxes on international trade and transactions	58.73	64.3	71.1	76.3	92.8	94.5	97.0
Other taxes	0.0	3.6	4.5	7.0	6.9	6.8	7.1
Non-tax Revenue	4.11	10.5	31.9	24.1	30.6	44.7	54.7
Donor Funded	41.67	61.0	26.9	58.4	105.6	124.6	154.3
Bilateral	41.67	59.0	2.8	31.3	61.8	43.5	30.0
Multilateral	0.0	1.9	24.1	27.1	43.8	81.1	124.3

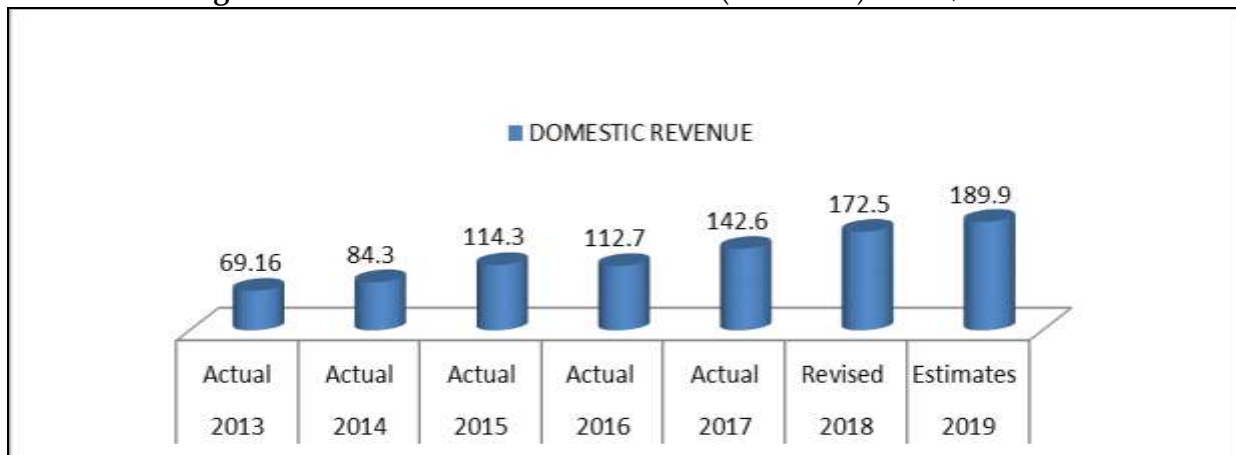
Sources: Summary of revenue for (2013- 2019) FGS budgets, FGS Domestic Revenue Trends (2012-2015).

According to the above table, the domestic revenue increased from US\$ 69.2 in 2013 to US\$ 84.3 in 2014. The data from the above table also shows decrease in domestic revenue from US\$ 114.3 to US\$ 112.7 from 2015 to 2016 respectively due to the shortage of revenue collection. There is also increase in domestic revenue from US\$ million 112.7 to US\$ million 142.6 2016 /2017 respectively. The change in amount is 29.9 In US\$ million and 26.5 in Change %. In addition, the domestic revenue has increased 29.9 In US\$ million between 2017 and 2018 from US\$ million 142.6 to US\$ million 172.5 and it is projected at US\$ 189 million which means 10.09 % increase in fiscal year 2019.

The tax revenue also has increased from 2013 to 2018 (US\$ 65.05, US\$ 73.8, US\$ 82.4, US\$ 88.6, US\$ 112.0, US\$ 127.9) respectively and projected US\$ 135.2 in 2019. The above table also presents an increase in non-tax revenue from 2013 to 2018 (US\$4.11, US\$ 10.5, US\$ 31.9, US\$ 24.1, US\$ 30.6 and US\$ 44.7) respectively although there was decline in 2016 and 2017 and projected US\$54.7 in 2019. The study also showed that federal Government of Somalia (FGS) relayed more on donor fund since 2015 to 2019 in increasing rate.

The FGS strengthened its capacity to mobilize domestic resources in order to strengthen service delivery. A number of new initiatives were launched in last three years which included license fees for telecommunications and fisheries, and increasing the collections. These combined efforts had a very positive impact on domestic revenue, which has grown from US \$114.2 million in 2016 to US \$172 million in 2018 and is projected at US\$ 189 million in fiscal year 2019.

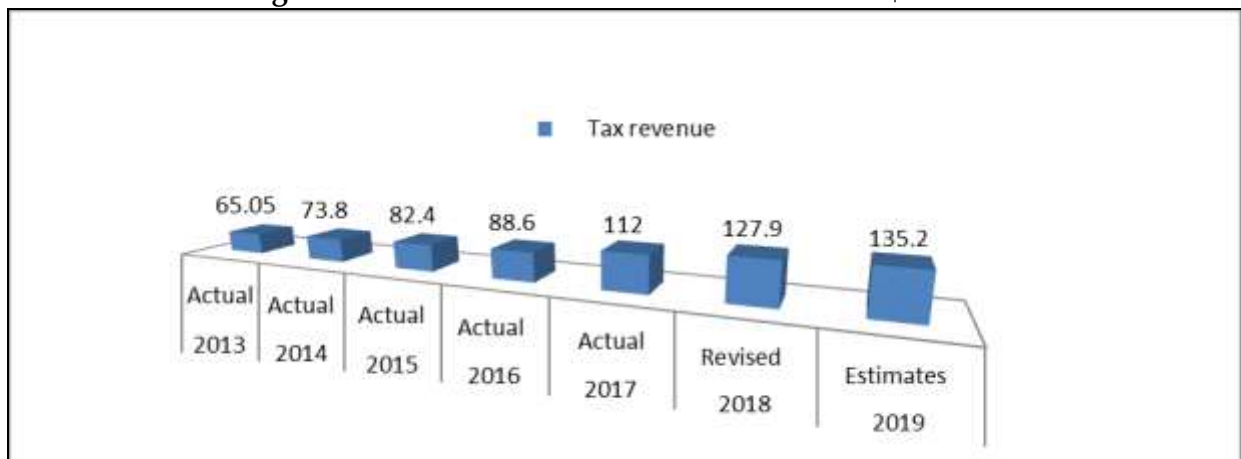
Figure 1: FGS Domestic Revenue Trends (2013-2018) In US\$ Million



The above figure indicates that the domestic revenue increased from US\$ 69.2 in 2013 to US\$ 84.3 in 2014 and decreased from US\$ 114.3 to US\$ 112.7 during 2015 and 2016 respectively due shortage of revenue collection. There is also an increase in domestic revenue from US\$ million 112.7 to US\$ million 142.6 2016 /2017 respectively. The change in amount is 29.9 In US\$ million and 26.5 in Change %. In addition, the domestic revenue has increased 29.9 In US\$ million between 2017 and 2018 from US\$ million 142.6 to US\$ million 172.5 and it is projected at US \$189 million which means 10.09 % increase in fiscal year 2019.

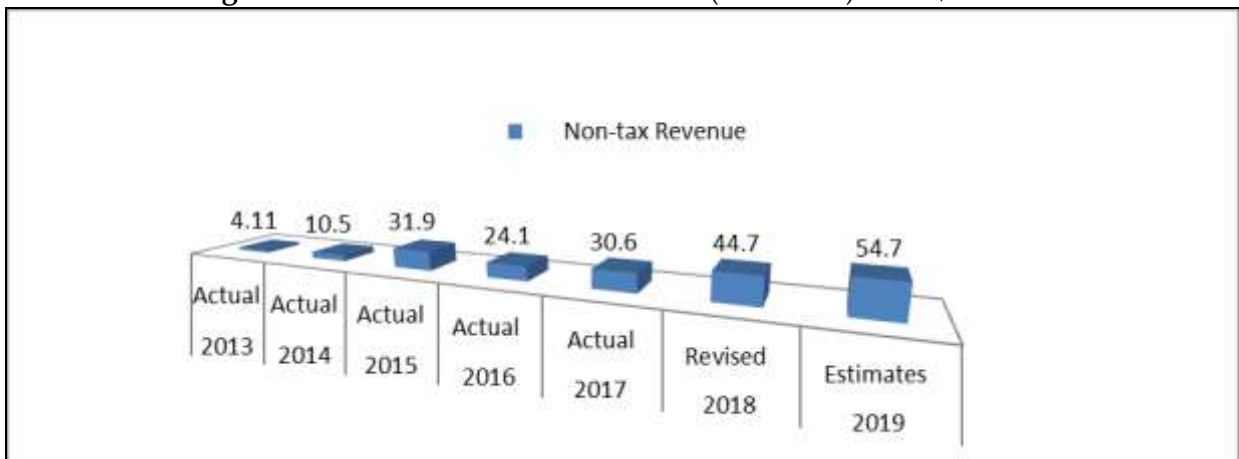
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Figure 2: FGS Tax Revenue From 2013-2018 in US\$ Million



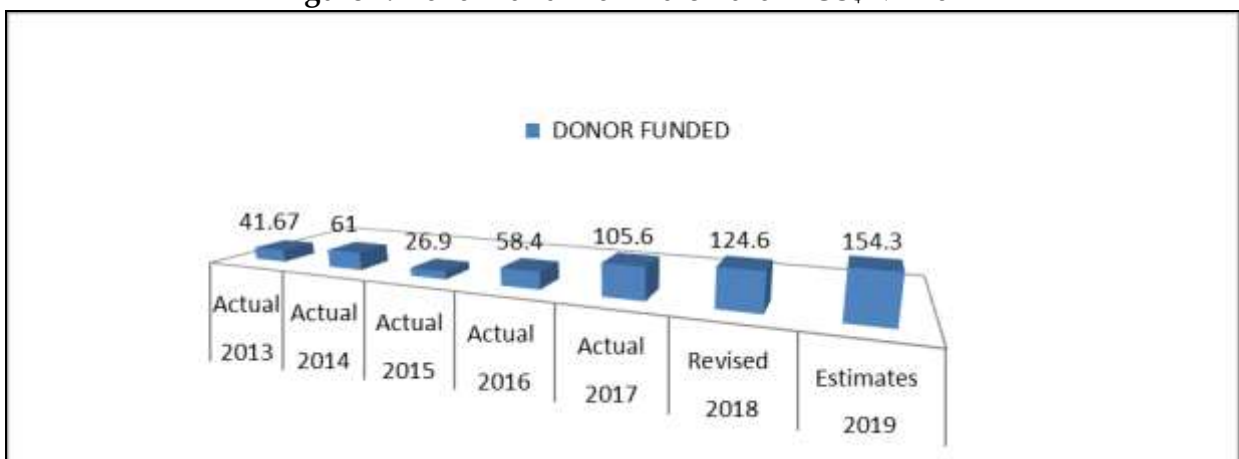
According the table and the above figure, the tax revenue also has increased from 2013 to 2018 (US\$ 65.05, US\$ 73.8, US\$ 82.4, US\$ 88.6, US\$ 112.0, US\$ 127.9) respectively and projected US\$ 135.2 in 2019. On the other hand, Taxes on international trade and transactions were the largest sources of tax revenue from 2013-2018 (US\$ 58.73, US\$ 64.3, US\$ 71.1, US\$ 76.3, US\$ 92.8, US\$ 94.5) respectively and estimated US\$ 97.0 in 2019. Taxes on goods and services are also the second largest sources of tax revenue, while Taxes on income, profits, and capital gains and other taxes are smallest sources of tax revenue of federal government of Somalia. In general the tax revenue of the federal government of Somalia was increasing from 2013 -2018 in increasing rate.

Figure 3: FGS Non-Tax Revenue Trend (2013-2018) in US\$ Million



The above figure presents an increase in non-tax revenue such as Administrative charges, Visa charges, Passports fees, License fees, Work permits and other fees, Harbour fees (Albayrak), Airport fees (Favori), Fisheries license fees, Telecommunication Spectrum fees and Over-flight fees from 2013 to 2018 (US\$ 4.11, US\$ 10.5, US\$ 31.9, US\$ 24.1, US\$ 30.6 and US\$ 44.7) respectively although there was reduction in 2016 and 2017 and projected US\$ 54.7 in 2019. The large increases in non-tax revenue (primarily Airport and Port fees and visa charges) indicate from improved and efficient management of the airport and port operations.

Figure 4: Donor Fund From 2013-2018 in US\$ Million

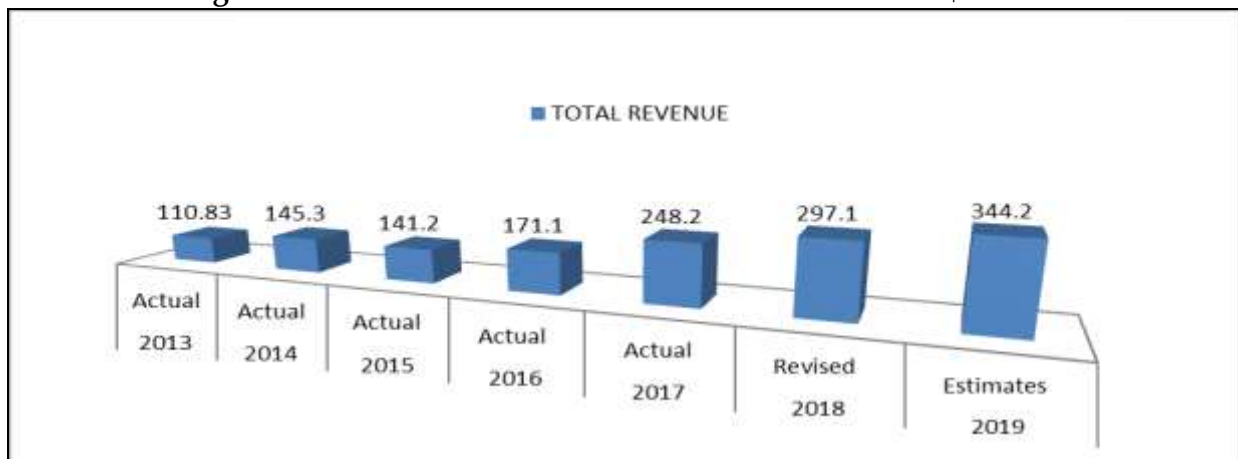


According to the data, the bilateral fund received by the federal government of Somalia has increased in 2013 and 2014 and dropped in 2015 and it was decreasing from 2017-2018 as decreasing rate. But multilateral fund received by the federal government of Somalia has increased from (2013-2018) (US\$ 1.9, US\$ 24.1, US\$ 27.1, US\$ 43.8, US\$ 81.1,) respectively and it was projected US\$ 124.3 in 2019 due to the effectiveness of Somali financial management information system (SFMIS) which built the confidence and relationship with Development Partners (DPs) that public fund will be managed in a transparent, equitable and accountable manner.

The Donor revenue of the federal government of Somalia was increasing (US\$ 41.67, US\$ 61.0, US\$ 26.9, US\$ 58.4, US\$ 105.6 and US\$ 124.6) from 2013- 2018 in increasing rate though it has dropped in 2015 and it was estimated US\$ 154.3 in 2019. From the findings, the federal Government of Somalia (FGS) relayed more on donor fund since 2015 to 2019.

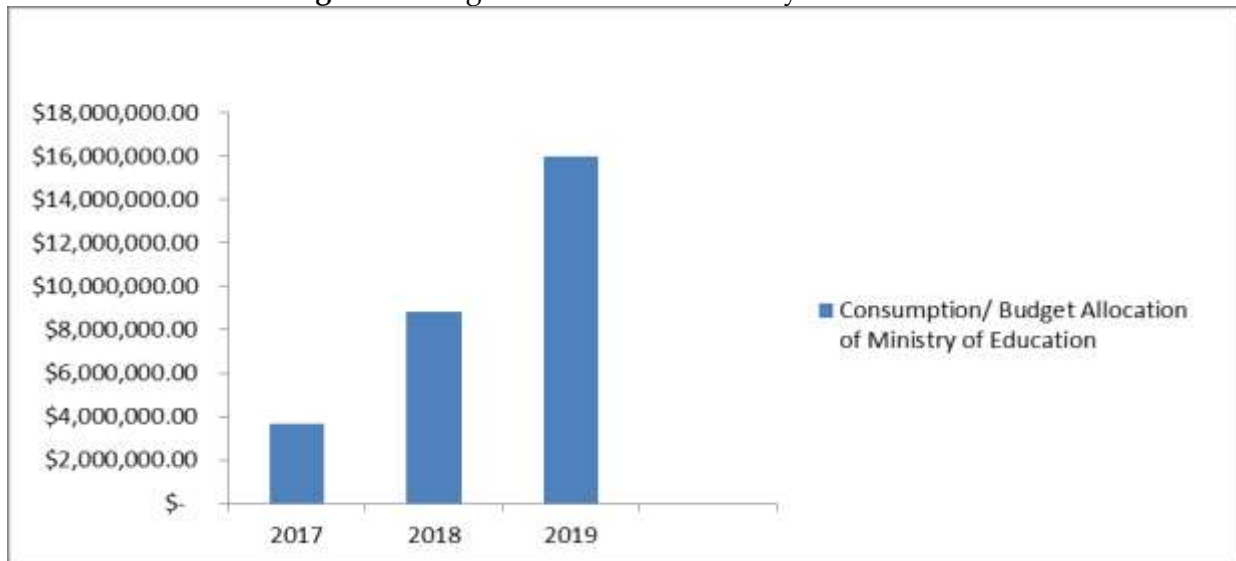
In general, the Total revenue of federal government of Somalia for the years (2013-2018) has increased possibly due to the taxes, increase in collections, License fees for telecommunications and fisheries, control in federal government expenditure through a Treasury Single Account (TSA) in the Central Bank in which all revenue collections and authorized payments are made with regular bank reconciliation which advanced the credibility to the completeness and accuracy of financial reports for decision making and accountability. The total revenue also has increased due to the effectiveness of Somali financial management information system (SFMIS) which built the confidence and relationship with Development Partners (DPs) that public fund will be managed in a transparent, equitable and accountable manner. The Total revenue trends are shown in the figure below.

Figure 5: FGS Total Revenue Trends From 2013-2018 in US\$ Million



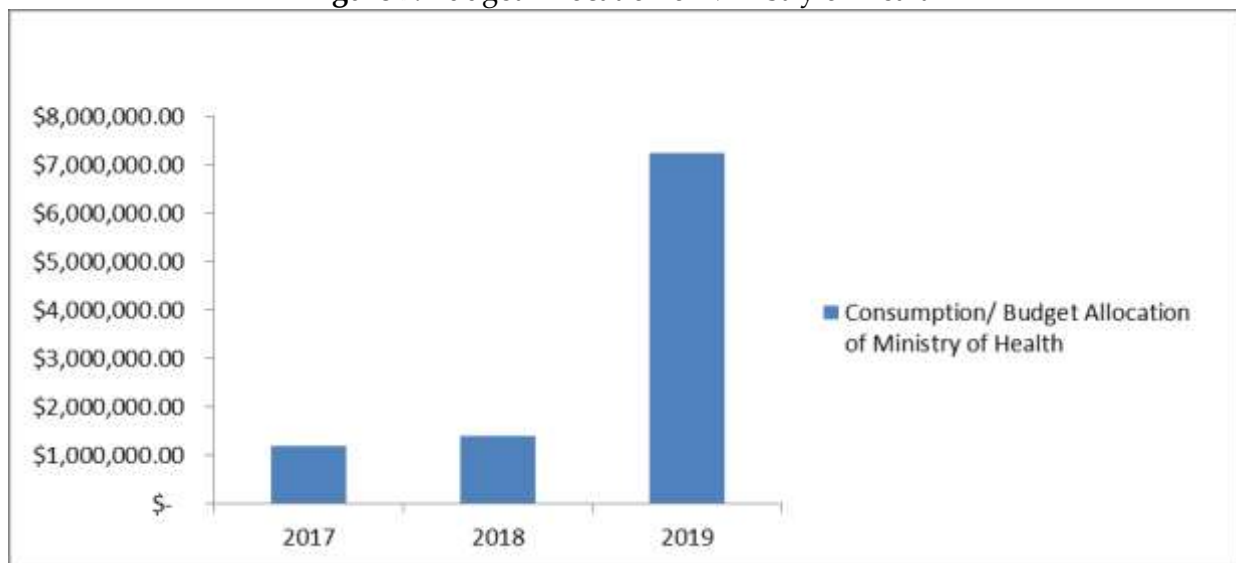
The study also found that the federal government of Somalia ensured the government wage bills stay below 50 percent of total expenditure during 2018 and 2019 in order to strengthen public service delivery, based on that, salaries and wages consumed below 50 percent of total expenditures in these two years and the budget allocation of public service such as the budget allocation of Ministry education and Higher Education increased from \$ 3,696,457, \$8,807,184 and \$ 16,009,178 in the last three years 2017, 2018 and 2019 as estimates respectively also the budget allocation of Ministry of Health has increased from \$ 1,188,364, \$ 1,398,951 and \$ 7,260,440 in 2017, 2018 and 2019 as estimates as shown in the following figures.

Figure 6: Budget Allocation of Ministry of Education



Sources: Summary of revenue for (2017- 2019) FGS budgets.

Figure 7: Budget Allocation of Ministry of Health



Sources: Summary of revenue for (2017- 2019) FGS budgets.

6. Discussion

This study revealed that the domestic revenue of federal government of Somalia increased from US\$ million 112.7 to US\$ million 142.6 2016/2017 respectively. The change in amount is 29.9 In US\$ million and 26.5 in Change %. This is in line with IMF report (2018) stating the federal government of Somalia (FGS) recorded a small fiscal surplus in 2017 as a result of higher-than-programmed domestic revenue. The strong fiscal performance continued through March 2018 due to lower-than-projected expenditure and slightly higher domestic revenue. this study also is in line with IMF report (2019) indicating that the Federal Government of Somalia (FGS) continued efforts

to broaden the tax base and strengthen tax administration that has been reflected in increased domestic revenue in 2018 almost 30 percent higher than in 2017.

The study also found out that the federal Government of Somalia (FGS) relayed more on donor fund since 2015 to 2019 and this findings is the same with (IMF report, 2018) that The Federal Government of Somalia's (FGS) fiscal position is not strong and It relies heavily on volatile grant funding.

The study discovered that the total revenue of federal government of Somalia has increased since 2015 to 2018 and projected to increase in 2019 and it is in line with FGS budget strategy paper (2019) of the revenue for revised budget 2018 and budget 2019 trend for Total revenue is positive high where the variance of 43 USD (in millions) 297.07 to 340.1 reasoned by the introducing the imposition of sales tax and an increase of international grants.

In general, this study is associated with studies conducted by different researchers such as Muigai (2012), Cheron, (2016), Kaindi (2012) and (USAID, 2008) that the Integrated Financial Management Information Systems (IFMIS) contributes positively to the financial performance in public institutions by ensuring that government is able to mobilize revenue, manage, and appropriate public resources in a proper and in efficient way.

7. Conclusion

Based on findings, the study concluded that the revenue of federal government of Somalia for the years (2013-2018) has increased due to the adoption of the SFMIS and projected to increase in 2019 due to the taxes, increase in collections, License fees for telecommunications and fisheries, control in federal government expenditure through a Treasury Single Account (TSA) in the Central Bank in which all revenue collections and authorized payments are made with regular bank reconciliation which advanced the credibility to the completeness and accuracy of financial reports for decision making and accountability.

The Total revenue of Federal Government of Somalia also has increased in the last three years more than any other years since 2013 due to the effectiveness of Somali financial management information system (SFMIS) which built the confidence of Somali Citizens and relationship with Development Partners (DPs) that public fund will be managed in a transparent, equitable and accountable manner.

The study also concluded that the federal government of Somalia increased budget allocation of social services during 2017, 2018 and 2019 to strengthen public service delivery particularly public health and education.

8. Recommendations

Based on the findings and conclusions, the following recommendations were made:

- 1) The federal government of Somalia should increase the collections to increase the domestic revenue.
- 2) The federal government also should develop tax compliancy rules to protect tax evasion and tax avoidance.
- 3) The federal government should establish public enterprises so as to increase the sources of government revenue.
- 4) The FGS collects the revenue from the Somali people, therefore. It should ensure that the some resources are invested in projects and infrastructure that will boost economic growth and create more opportunities for Somalis across the country.
- 5) The estimated revenue in the 2019 budget (in US\$ millions) shows US\$ 154.3m on donor fund which represents great amount of government revenue which is 44.8% of the total revenue, therefore. The federal government should rely on its own resources instead of donor grants.
- 6) The federal government of Somalia should increase the Taxes on income, profits, and capital gains and other taxes to increase the tax revenue.

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