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Tax dealings: State and private sector relations in Somalia

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Tax dealings

State and private sector relations in Somalia

Gayatri Sahgal*

October 2025

Abstract: Taxation is often described as the material expression of the social contract. However, this conceptualization largely reflects the Anglo-European experience and provides limited explanatory power for analysing taxation in African states, which did not experience the type of state–society bargains seen in Western Europe. Beyond neo-patrimonial and resource curse arguments, relatively limited research has theorized the political challenges underpinning domestic resource mobilization and the difficulties facing African states in collecting revenues from large businesses. This paper addresses this gap by examining fiscal relations in one particularly fragile African context: Somalia. Using a qualitative process-tracing methodology and drawing on the political settlement framework, it focuses on revenue bargaining in the corporate taxation of the telecoms sector. It finds that the combination of the sector’s fiscal importance and considerable economic power within a political settlement context where political elites had exercised limited power and authority placed the sector in a stronger bargaining position to negotiate low corporate taxes and exemptions. The lack of fit between formal and informal institutions also meant the sector resisted efforts to formalize the corporate tax rates, and informal tax arrangements continued to be preferred. Lastly, while telecoms businesses had shed some of their previous antagonism to state authority, their willingness to pay corporate taxes was related to tactics of ‘extraversion’. Specifically, the achievement of the debt relief milestone and the opportunity to earn greater rents incentivized these actors to make some tax payments to sustain the image of a formal state to gain access to external financing. These findings underscore the centrality of the political economy context in addressing the limitations of fiscal theory and draw attention to the significance of the distribution of power and the nature of institutions in shaping the motivations and the bargaining positions of state and revenue providers, especially in contexts characterized by weak state capacity.

Key words: Taxation, political economy, Somalia, fragile state, political settlement, private sector

JEL classification: H25, H26, P00

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1 Introduction

For much of its history, Somalia has been described as a stateless society where ‘effective tax collection under a centralized authority has been a persistent challenge’ (van den Boogaard and Isak 2025: 5), especially from the more profitable sectors of the economy (Menkhaus 2007a; Raballand and Knebelmann 2021). In 1960, when Somalia gained independence, successive civilian governments struggled to engage in broad-based revenue bargaining agreements and remained largely reliant on indirect rather than direct sources of taxation (taxes levied on businesses and citizens) (Kapteijns 2013; Samatar 1985). The Siad Barre regime’s (1969–91) failed policies—marked by rampant corruption, mismanagement, and soaring public debt—inflicted lasting damage on the state’s revenues and public finances (Marchal 1996; Mubarak 1997).¹ As the formal economy dithered and edged closer to collapse, businesses saw the regime as highly disruptive to economic development and retreated to the informal economy. As a result, the share of corporate taxes, which was already low (9%), fell dramatically to less than 0.11% by 1985 and was effectively nil by 1989 (Purohit 1990).

In the years following the ousting of the Barre regime in 1991, the country plunged into a state of protracted conflict, which left in its wake a motley of formal and informal overlapping systems of public order (Menkhaus 2007a). While sections of the business class were deeply affected by the war, the absence of regulatory controls and the predatory and exploitative practices of the Barre regime, alongside the inflow of international aid, allowed some businesses to re-establish their activities (Mubarak 1997), relying mainly on customary (kinship) and religious institutions.² Telecommunications was among the core businesses that emerged during this period (1999 onwards). By 2014, telecoms was one of the fastest-growing sectors of the economy and was acclaimed for offering one of the most affordable calling and mobile data rates (Kelly et al. 2021) and being a leader in mobile money transactions (with a penetration rate of over 70%) (Altai Consulting 2017; World Bank 2018a). Additionally, unlike the rest of the region, which was dominated by multinational conglomerates, ‘the Telecom sector was distinguished for being Somali-led’ (Iazzolino and Musa 2024; Iazzolino and Stremlau 2023: 15). By 2020–21, the sector was dominated by three leading players or mobile network operators (MNOs): HTG group (consisting of three franchise entities: Hormuud, Telesom, and Golis),

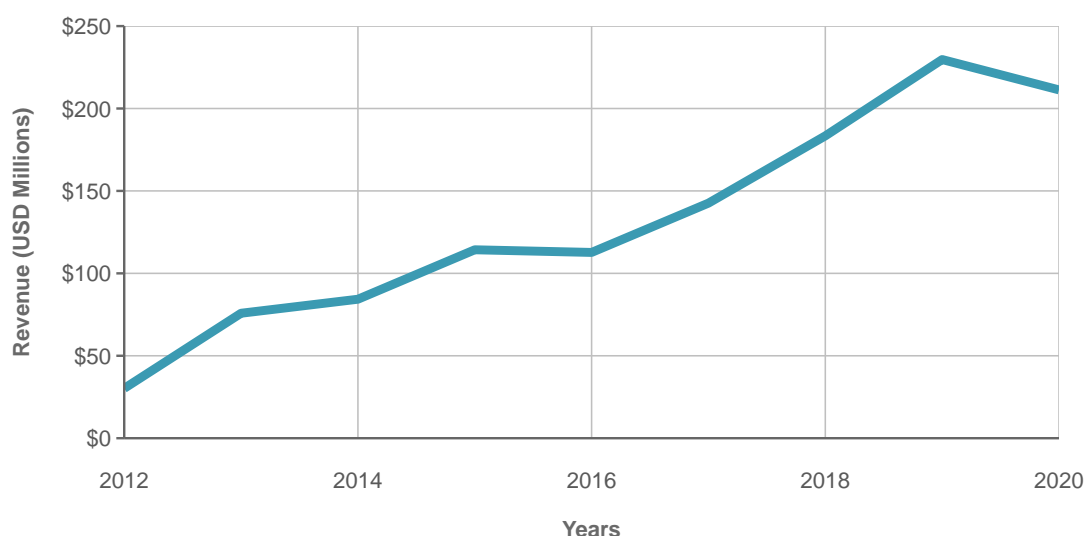
¹ During 1989–90, the non-financial public sector deficit exceeded 30% of GDP, and the current account deficit of the balance of payments (excluding official grants) averaged 45% of GDP.

² For instance, Islamic credentials and identity were used to establish trustworthiness and credibility in business transactions (Ahmad 2017). The customary laws of ‘Xeer’ were also deployed to settle disputes between businesses belonging to different kinship groups (Collins 2009). To guarantee the protection of physical infrastructure, business interests were also tied to clan interests via the lineage affiliation of firm ownership (Collins 2009). Thus, as Hagmann (2005: 535) notes, ‘following state collapse, a specific Somali modernity emerged in which extremely effective free market capitalism co-existed with blood compensation, based on time-consuming negotiations between family elders and Sharia courts.’

Somtel, and Amtel. There were also ten smaller players or internet service providers (ISPs) specializing in internet-related services (National Communications Authority 2020, 2022).

Even as business activity resumed, the revival of formal state structures proved more challenging. Following nearly two decades of transitional administrations, the first permanent government took office in 2012 (Hammond 2013; Menkhaus 2007b). Since then, the country has been witness to three successful transfers of power at the federal level, and five new regional administrations have been established.³ In tandem, the Federal Government of Somalia (FGS) has been making efforts to improve its domestic resource mobilization capacity. Over the past ten years, Somalia's domestic resource mobilization capacity increased from a mere US\$30 million in 2012 to almost US\$262.7 million in 2022—an almost nine-fold increase (Figure 1) (World Bank 2017, 2022b).

Figure 1: Overall domestic revenue trends



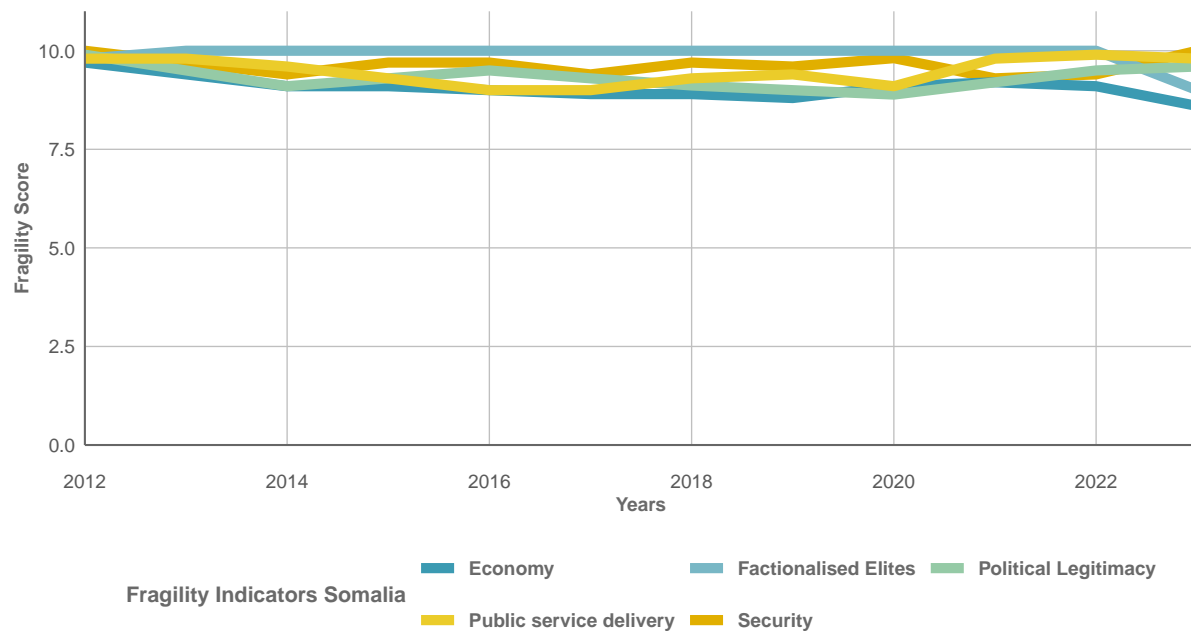
Source: author's compilation based on data from IMF (2020) and World Bank (2018b, 2021).

In 2023, Somalia achieved the HIPC (Heavily Indebted Poor Countries Initiative) Completion Point and reduced its debt burden from 64% to 6% of its GDP, in part because of the reforms it was able to undertake in raising taxes and improving public financial management practices (IMF 2023). While indirect taxes still represent a significant proportion of domestic revenues (Figure 2), the FGS was able to mobilize direct taxes and fees from one of the most powerful economic groups—the telecommunications industry. In 2017, the FGS also successfully passed the National Communications Law (NCA), the first such sectoral law to regulate the country's thriving telecoms sector (FGC 2017; FGS 2017). Subsequently, the sector's tax con-

³ The federal member states (FMSs) include Puntland, established as a semi-autonomous region in 1998, Jubaland in 2013, South West State in 2014, Galmudug in 2015, and Hirshabelle in 2016.

tributions increased from US\$3.9 million in 2014 to US\$42.8 million in 2021 (Abshir et al. 2019; Kelly et al. 2021).

Figure 2: Somalia fragility scores (2012–23)



Note: fragility rankings range from 1 to 10, with higher scores indicating greater fragility.

Source: author's compilation based on data from the Fragility Index (2012–23) and Fund for Peace (2023).

Despite such progress, Somalia is among the most fragile states in the world (Fund for Peace 2023), unable to fund and deliver even basic public services such as law and order. Domestic revenue mobilization, while improving, is still quite low compared to other fragile countries:⁴ domestic revenue to GDP was 2.5% and the tax-to-GDP ratio was 1.7% in 2022. (World Bank 2023, 2024). The FGS's authority and capacity are limited broadly to the capital city, and within Mogadishu it largely relies on the African Union Mission⁵ for its security and protection (Bryden 2013; Hammond 2013; Menkhaus 2018). Even as the FGS has been able to mobilize tax payments from the more profitable sections of the economy, instituting more formalized payments has been a persistent challenge. In particular, corporate tax payments by the telecoms sector are paid on a negotiated basis. Such tax payments are, therefore, not based on a transparent and impartial rate, but determined through negotiations.⁶

In the context of such emergent relations, two questions emerge: (1) Why would an industry that emerged as one of the dominant players in the absence of state institutions agree to pay

⁴ The average tax–GDP ratio in four similarly low-income Sub-Saharan African countries with FCV (fragile, conflict-affected, and vulnerable) status was approximately 14% GDP (World Bank 2024).

⁵ The African Union Transition Mission in Somalia (ATMIS) took control in 2022.

⁶ This situation is expected to change following the passage of the Income Tax Bill in 2025, which requires large businesses to pay an 18% tax rate. However, the law has yet to come into effect as the regulations are still being formalized in the FMSs (World Bank 2024).

taxes to a low-capacity state unable to deliver even essential public goods, such as security and law and order? (2) After agreeing to pay some tax, why did sectoral corporate tax contributions continue to be paid on a low and negotiated basis?

Interrogating these questions, however, raises broader concerns about the nature of tax relationships in contexts of weak state capacity. Within the fiscal sociology literature, tax relations have been modelled as a contract, whereby taxpayers uphold their end of the bargain and willingly pay taxes on the condition that states can deliver reciprocal returns, such as collective public goods and services, security, political representation, and accountability (Bates and Lien 1985; Brautigam 2008; Moore 2004; Schumpeter 1918; Tilly 1985). Given the fragility of the Somali state, the fiscal contractual lens does not help explain why taxpayers would be motivated to pay taxes to a state that could not deliver reciprocal returns (Raballand and Knebelmann 2021).

The problem is also not unique to Somalia. Africanist scholars have long pointed out that fiscal contractual models of taxation offer little expository guidance for the study of African states, which did not experience the type of state–society bargains that were seen in Western Europe. Instead, as Meagher (2018: 3) notes, the history of taxation in Africa was disrupted by colonialism and extensive international interference and was, therefore, more about ‘oppression than political accountability or service provision’. In the post-colonial period, existing research has mainly focused on neo-patrimonial politics (Bayart 2009; Chabal and Daloz 1999), the reliance on natural resource rents (Anderson 1987; Moore 2004; Ross 2004), and dependence on external aid to conclude why social contracts continue to be missing or weak in African states (Collier 2009; Eubank 2012). Thus, as Fjeldstad and Therkildsen (2020: 38) note, ‘within the broader African continent there are fewer instances of major political deals (fiscal contracts) involving an increase in broad-based taxes in exchange for the provision of public services (education, health, roads)’.

However, Kjær et al. (2023) argue that focusing only on broad-based social contracts risks missing much of how fiscal relations are unfolding across the continent. In particular, these scholars emphasize the role of implicit or explicit bargains—where individuals or groups negotiate with state actors over taxes and revenues—as having incremental political effects and shaping the nature of state–society dynamics (e.g. accountability of state actors). Thus, to appreciate the nature of tax relationships on the continent, they propose it is crucial not to conflate the process of bargaining with the outcome or the implicit or explicit agreement between states and taxpayers on revenue provision (i.e. the contract). The process of bargaining may lead to an agreement (although not guaranteed) of a micro-fiscal contract. However, such agreements differ from macro-level social contracts in that they tend not to involve broad-based exchanges for public goods and accountability. Often, these agreements can result in foregone revenue (e.g. tax exemptions for specific groups of taxpayers, as in the Somali case) and may

not lead to an equal exchange or reciprocal compromise if there is an imbalance in the power of revenue providers and state authorities. Lastly, such negotiations can be over various types of contributions, including formal tax payments, supporting the ruling elite via the national budget, or informal, private payments to ruling elites—for example, in the form of campaign financing (Kjær et al. 2023).

To account for the contestations and the resulting outcomes of such bargains, Kjær et al. (2023), Gray and Whitfield (2014), and Di John (2011) suggest that it is crucial to consider the underlying power dynamics and the structural positionalities of both state authorities and taxpayers. The political settlement (PS) framing, in particular, which draws attention to the distribution of power among groups and institutions in a society, offers a compelling perspective to disaggregate the motivations and the bargaining positions of state and revenue providers, especially in contexts characterized by weak state capacity.

In this paper, I draw on this recent work on PS and revenue bargains to understand the emergent relations between the state and sections of the private sector in Somalia. In doing so, I adopt a qualitative approach following a process-tracing analytical approach. Specifically, I identify and trace specific causal mechanisms or processes explaining the private sector and state fiscal relations related to the payment of corporate taxes (Bennett 2010). The research is based on 110 interviews with key private sector actors in the telecoms and related sectors, federal (FGS) and state officials (FMS), representatives from international and national development organizations, telecoms experts, and academics, conducted between 2020 and 2022 (see Appendix A for further details on the methodology). In applying this methodological approach, I find that the PS framework offers a valuable and compelling perspective for interrogating the nature of tax bargaining arrangements in Somalia.

In the following sections, I discuss the theoretical framework by expanding on emerging scholarship and PS framings on micro-bargains (Kjær et al. 2017, 2023; Whitfield et al. 2015). I then apply this framework to the Somali case: first, I describe the nature of the Somali PS; next, I trace the specific causal mechanisms that explain the tax incentives of the telecoms sector and conclude by summarizing and discussing the main implications of my findings.

2 Rethinking political settlement: state, private sector, and taxation in a fragile state

In contrast to fiscal contractual perspectives, which perceive the social contract to be the basis of the state's authority and legitimacy, PS scholars emphasize that the state is founded upon a historically determined balance of power between contending groups and classes (Di John 2011: 12). 'Power' within this framework is defined as 'holding power'—that is, 'how long a particular organisation can hold out in actual or potential conflicts against other organisations or

the state' (Khan 2010: 20). For Khan (2010, 2018), one of the foremost scholars on the subject, holding power is partly a product of income and wealth but is also contingent on the historically rooted capacities of different groups to organize.

Additionally, institutions also affect the distribution of power because they create economic benefits that contribute to the relative holding power of different groups (Behuria et al. 2017; Khan 2010). However, there is an interdependent relationship between institutions and power. Since institutions create distributional advantages, powerful groups are likely to drive the evolution of institutions to achieve benefits that align most closely with their interests (Khan 2010). An equilibrium or PS emerges when the distribution of benefits supported by institutions is consistent with the distribution of power in society, and the economic and political outcomes of these institutions are sustainable over time (Khan 2010).

There are various kinds of PSs, and the nature of the underlying settlement has particular implications for the types of tax relations that emerge (Gray and Whitfield 2014; Kjær et al. 2017). In most developing countries, particularly fragile states such as Somalia, the PS can be defined as a 'political settlement in crisis'.⁷ The defining feature of such settlements is that to a significant extent holding power is not aligned with benefits generated from formal institutions—codified, 'impersonally' defined rules enforced by state agencies—but rather the sources of power are rooted in informal institutions—non-codified, personalized rules enforced by state or non-state actors (Khan 2010).⁸ In such contexts, formal institutions have broken down to a significant extent and can no longer play a role in coordinating productive activities (Khan 2010: 59). Correspondingly, holding power is based outside the 'tiny emerging productive sector' as much of the economy operates in the informal sector and is governed by informal rules and institutions (Khan 2010: 54). The dominance of the informal sector also means that large parts of the economy are not taxed, and this constitutes a constraint on the volume of taxes that can be extracted domestically (Kjær et al. 2017). The national budgets are consequently small, and ruling elites within governments often rely on other forms of revenue and finances to fund their activities (Kjær et al. 2017).

In such contexts, informal institutional arrangements, such as resource allocations and accumulations through patron–client networks, 'become critical in redistributing resources towards groups that hold power but do not have the political legitimacy to claim resources through formal channels' (Gray and Whitfield 2014: 13). Among the crucial ways that benefits are captured is through 'excessive incomes' generated from political transfers and the restricted use

⁷ Khan also distinguishes between two other types of PS, where the vertical distribution of power is weak and the power of the excluded factions is strong, and a third where the power of excluded factions is strong but the vertical distribution of power is weak.

⁸ Khan describes the informal network used by powerful groups to generate and protect benefits as patron–client networks.

of and control over resources and organizational forms (i.e. various forms of legal and illegal rents).⁹ While Khan and Sundaram (2000) point out that there are many types of rents,¹⁰ among the most important types of rents include income from 'tax exemptions, low tax rates, negotiated/personalised rates, systematic toleration of tax evasion' and 'off-budget' resources, such as political kickbacks (Di John 2011; Khan and Sundaram 2000).

In sum, internal political stability in fragile and developing countries is not maintained primarily through fiscal policy but through the allocation of rents (e.g. the selective or preferential application of laws) and the selective accommodation of factions organized along patron–client lines (Gray and Whitfield 2014). However, PSs also tend to vary, and such variations have specific implications for determining the nature of informal institutional arrangements that emerge around revenue and taxation. To understand the Somali case better, it is critical to identify first the factors that account for the variations in PSs, including the nature of the power of the ruling elite, the power of revenue providers, and the nature of institutions.

2.1 Power of the ruling elite

For Khan (2010), PSs differ based on the organization of the ruling coalition. To this end, he distinguishes between the horizontal and the vertical distributions of power. The horizontal distribution of power refers to the power of the excluded factions relative to the ruling coalition—that is, whether power is concentrated in one dominant political group or dispersed (Behuria et al. 2017; Khan 2010; Kjær et al. 2023). If the excluded coalitions are weak, the ruling coalition will be more secure and operate with a longer-term horizon. Conversely, if the power of excluded groups is strong, ruling elites will be vulnerable to being unseated from government and will be more short-term in their outlook (i.e. they will discount the future) (Bates 2008; Whitfield et al. 2015).¹¹

The second dimension describing the structure of the ruling coalition is the vertical distribution of power, which refers to the power of the higher versus lower factions within a ruling coalition (Kjær et al. 2017). The greater the relative power of higher over lower factions within the ruling coalition, the greater the implementation and enforcement capacities of the coalition (Behuria et al. 2017). The more powerful lower-level factions became, the lower the capacity of ruling coalitions to enforce rules contested by such factions (Khan 2010).

⁹ Economic rents are described as an income higher than what an individual or firm would have earned given their next-best alternative (Khan and Sundaram 2000: 22).

¹⁰ Other types of rents include redistributive rents, which are important for maintaining stability, and learning and Schumpeterian rents, which are 'efficient' and important for technological investment and the development of productive assets.

¹¹ According to Bates, ruling elites who discount the future are more impatient, greedy, and insecure, and will find the prospect of predation more attractive than if they were patient, satiated, and secure.

For Kjær et al. (2023), the distribution of power of the ruling coalition is critical for understanding the revenue bargaining position of the ruling elites. For instance, in contexts where there is a concentration of both horizontal and vertical power, ruling elites will be in a stronger bargaining position to develop and negotiate tax policies, even if they may be resisted by excluded groups or lower-level factions. Conversely, if power is horizontally dispersed (i.e. elites cannot resist any challenge to their control over political institutions) and vertically differentiated (ruling elites have limited enforcement capacity), the PS will be more competitive, as in most fragile states (Behuria et al. 2017; Khan 2010). The ruling elites will be in a weaker bargaining position, and decisions to increase revenue will be politically costly if taxes target important constituents (Kjær et al. 2023).

Along with the political resources, another dimension of the ruling elites holding power that has received considerable scholarly attention, especially in reducing the incentive of African states to mobilize revenue (Collier 1999; Eubank 2012; IMF 2012), is the availability of non-tax revenue such as aid or natural resource revenues. As Moore (2004) points out, the availability of non-tax revenue or foreign aid can reduce the ruling elites' reliance on domestic taxpayers and, as such, serve to strengthen their autonomy.

Hagmann (2016: 10) adds to these debates and argues that the state's incentive for domestic tax mobilization is also explained by the tendency of elite extraversion: 'A process by which groups or individuals employ their dependent relationship with the external world to appropriate resources and authority.' Basing his analysis on the Somali case, he argues that the influence and role of external actors and the constant inflow of resources as part of stabilization and state-building interventions can generate an incentive structure that motivates ruling elites to view state formation as an exercise in gaining access to external rents and resources (Hagmann 2016). The resulting outcome is that even when elites engage in some tax bargaining, the underlying motivations are not guided by a desire to support the development of functional formal institutions, but are rather influenced by the need to appropriate and gain access to external resources and finance. Thus, when entrenched groups of elites are motivated by the logic of extraversion, revenue bargains can result in a taxation system whereby elites pay the least amount of tax possible to access external rents.

2.2 Power of revenue providers

While the holding power of political elites has received considerable scholarly attention, especially in explaining a host of concerns (Behuria et al. 2017; Di John 2011; Goodfellow 2022; Hickley 2020), including why it has been challenging to pursue specific tax reforms (van den Boogaard and Isak 2025), with the exception of a few studies (Tendler 2002; Timmons 2005;

Whitfield et al. 2015), the (holding) power that actors have as potential revenue providers has been less studied.

Building on previous scholarship (Gray and Whitfield 2014; Whitfield et al. 2015), Kjær et al. (2023) propose that the fiscal importance of revenue providers—that is, their relative significance as a source of government revenue—is salient for understanding the nature of revenue bargains. Specifically, the fiscal importance of revenue providers is a product of the relative economic positions of these actors in the economy (e.g., the profitability margins of businesses, the share of GDP, the rate of employment, etc.). Moreover, because PS theory recognizes that both formal and informal institutions are a source of power, revenue providers can also hold bargaining power by providing informal or covert payments to the ruling elite that can be used strategically to buy support and legitimacy (Kjær et al. 2023).

Additionally, since holding power is also influenced by the power to organize, another core dimension of the power of revenue providers is their ability to mobilize support through organizational capacity, knowledge, and networks vital to the ruling elites' ability to maintain the ruling coalition. An essential feature of organizational importance is how well-networked revenue providers are, such that the ruling coalition cannot operate without their support (Kjær et al. 2023; Whitfield et al. 2015).

The interaction of the relative holding power of the ruling elite and revenue has a bearing on the types of revenue bargains that emerge. If the (holding) power of the ruling elites in terms of both political and economic dimensions is low, such that power is widely dispersed and contested (horizontally and vertically), and if the ruling elites depend on tax revenues to fund their activities and the power of the revenue providers is significant on account of their fiscal importance and the ruling coalition cannot operate without their support, then revenue providers will be in a stronger negotiating position to impose their interests.

However, the interests of revenue providers are not uniform; they vary by the type of business, the source of profitability, and the types of rent earned (Pritchett et al. 2017). Firms that are natural monopolies (e.g., telecoms, power, and oil) can earn rents by maintaining their monopoly position and seeking closer alliances with political elites.¹² Such firms, termed 'power-brokers', may benefit from the murkiness of red tape and uneven enforcement, and prefer barriers to entry over regulated competition (Prichard and Van Den Boogaard 2017: 23). If such firms are not disciplined,¹³ they are likely to seek exclusive arrangements with the state, what Pritchett

¹² Khan and Sundaram (2000) propose that monopoly rents do not always lead to super profits. However, for Pritchett et al. (2017), such firms almost always seek exclusive arrangements that lead to super profits. The latter group tends to generally subscribe to the view that the existence of rents is antithetical to sustained development (Behuria 2025).

¹³ Khan and Sundaram (2000) define discipline in terms of states being able to regulate the sector to ensure they keep prices low and produce optimal quantities.

et al. (2017) term as ‘closed deals’ (i.e. deals that lead to low taxes and tax exemptions for a closed group of businesses).

2.3 Nature of institutions

Lastly, one of the critical contributions of PS theory is that it underscores how institutions not only determine the rules for decision-making and lower transactional costs, but also create specific benefits or rents that are not equally distributed among the different groups in society (Behuria et al. 2017; Khan 2010, 2018). Groups that benefit from specific institutions seek to ensure their continuity and contest institutions threatening their rents and interests (Khan 2018). The nature of institutions, therefore, has an important bearing on the types of tax relations that emerge.

In most fragile contexts, the productive sector governed by formal institutions (e.g., market regulation, contract enforcement, and property rights) is generally ‘small or non-existent’ (Khan 2010: 53). The distribution of benefits from formal institutions, therefore, does not reflect the broad distribution of power. Instead, it is the informal institutions that are the source of holding power. Powerful groups will, therefore, seek the continuity of informal institutions to secure their interests. Consequently, where formal institutions are weak and considered a threat to elite interests, elites will seek to subvert them and instead engage in informal deal-making in sharing political privileges and economic resources (Khan 2010).

As previously argued, patron–client networks are examples of such informal deal-making, where political elites maintain their legitimacy by distributing public resources to benefit their clients, including by charging them lower taxes—what Tendler (2002: 1) describes as the ‘devil’s deal’. Unlike more industrialized countries, where large national budgets are distributed to the entire population through a range of public goods, in low-income countries, informal institutions capture and protect the benefits of organizationally powerful groups (Gray and Whitfield 2014).

Thus, a more expansive reading of the PS perspectives offers a critical lens to understand the politics of revenue bargains. Specifically, it directs attention to how such bargains need to be studied in the context of the underlying PS. In fragile contexts, the underlying PS is characterized by crisis, where formal institutions have largely collapsed and holding power is aligned not with the formal productive sector but with the large informal sector. The low productivity of the economy also means that the fiscal basis of the state is small, and revenue from formal taxation is not sufficient to distribute benefits to groups with holding power. Thus, one of the ways in which benefits are distributed is through informal arrangements and by giving powerful groups or factions access to rents, including through tax exemptions, low tax rates and negotiated personalized rates, and the systemic toleration of tax evasion. However, the informal arrangements that emerge depend on the power of the ruling elite, the revenue providers, and

the nature of the institutions. These factors, together, determine the types of revenue bargains that emerge between the state and revenue providers. In the next section I apply this framing to the Somali context to explore the nature of revenue bargaining relations that emerged between the state and sections of the private sector.

3 Elite division of spoils: the nature of the political settlement in Somalia

As previously argued, an assessment of the nature of the PS in Somalia must begin with the basic structure of the economy. The Somali economy has witnessed considerable growth since the beginning of the post-transitional period, led initially by President Hassan Sheikh (2016–17) and later by President Abdullahi Mohamed ‘Farmajo’ (2017–21).¹⁴ By 2019, the real GDP grew by 2.9% and was on par with population growth, but slowed to 1.7% by 2022 (owing largely to the COVID-19 pandemic) (World Bank 2023). Yet, despite such progress, the country was starting from an extremely low base, and the economic challenges remained considerable.

Growth rates were not sufficient to alleviate the high rates of poverty (54% nationally) (World Bank 2023). Moreover, while sections of the private sector proved extremely resilient (Leeson 2007; Little 2003; Musa et al. 2023), especially sectors such as telecoms, banking, and remittances, the economy was reliant on the primary sector. The productivity of the primary sector—namely agriculture and livestock, which together accounted for 65% of GDP—was reduced by recurrent climate-related shocks, violence, and limited infrastructural investments (IFAD 2022; World Bank 2023, 2024). The other (secondary and tertiary) sectors were also stunted and hampered by obstacles such as poor security, lack of infrastructure, and limited inputs in terms of resources and know-how (Abshir et al. 2019, 2020).

Furthermore, the years of statelessness meant that much of the Somali economy was not regulated. Informal kinship and religious institutions that emerged during state collapse to coordinate economic transactions continued to be influential (Collins 2009; Hagmann 2005; Iazzolino and Musa 2024). The first sectoral law passed to regulate the telecoms sector was introduced only in 2017. The Somali economy, therefore, was a largely primary economy, with a low manufacturing and service base and governed by informal rules rather than formal regulations. Consequently, a major source of (holding) power in Somalia was aligned with informal rather than formal institutions.

The low productivity of the Somali economy and the large informal sector resulted in a narrow revenue base (World Bank 2021, 2022b, 2023). Only a fraction of the domestic production

¹⁴ In late 2022, President Sheikh returned to power. However, the research for this paper does not cover the second presidency of President Sheikh.

was taxed because much of the economy was outside the formal sector. Consequently, trade taxes accounted for a significant share of the revenue (almost 50%). In contrast, the share of income and profit tax was a mere 7%, and the taxes on goods and services were 10% (IMF 2023; World Bank 2022b). Table 1 and Figures 3 and 4 provide details of the revenues collected by the FGS. However, the domestic resource mobilization capacity was also enfeebled by the weak tax administrative capacity¹⁵ and the low legitimacy and capacity of the state to deliver reciprocal returns (Abshir et al. 2020). Domestic resources were only sufficient to fund 30% of revenue, and most expenses were directed towards administrative costs and personnel and security expenses (World Bank 2023). Capital and development-related expenditure accounted for less than 2% of spending in 2021, equivalent to 0.2% of GDP (World Bank 2023).

Table 1: Tax revenue, 2012–20 (US\$ millions)

Revenue stream	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Domestic revenue	30.2	75.8	84.3	114.3	112.7	142.6	183.4	229.7	211.3	229.6
Tax revenue	25.3	65.1	73.8	82.4	88.6	112	138.9	154.8	139.5	162.8
Tax on income, profit	0	0.7	1.1	1.9	2.4	3.4	8.6	11.7	16.2	15.8
Tax on goods and services	0	1.6	4.8	4.8	2.9	8.9	22.1	25	21.3	23.4
Taxes on international trade	24	58.7	64.3	71.1	76.3	92.8	100.3	107	91.1	109
Other taxes	1.3	4.0	3.6	4.5	7.0	6.9	7.9	11.1	11	14.6
Domestic loan and grants	0	6.6	0	0	0	0	0	0	0	0
Non-tax revenue	0	4.1	10.5	31.9	24.1	30.6	44.5	74.9	71.7	66.8
Of which spectrum fees	0	0	0	0	0	0	0	8.7	1.7	0
External grants	4.9	41.7	61	26.9	58.4	125.9	92.8	108.1	295.6	147
Revenue and grants	35.1	117.4	145.3	141.2	171.1	268.5	276.2	337.8	506.8	376.5

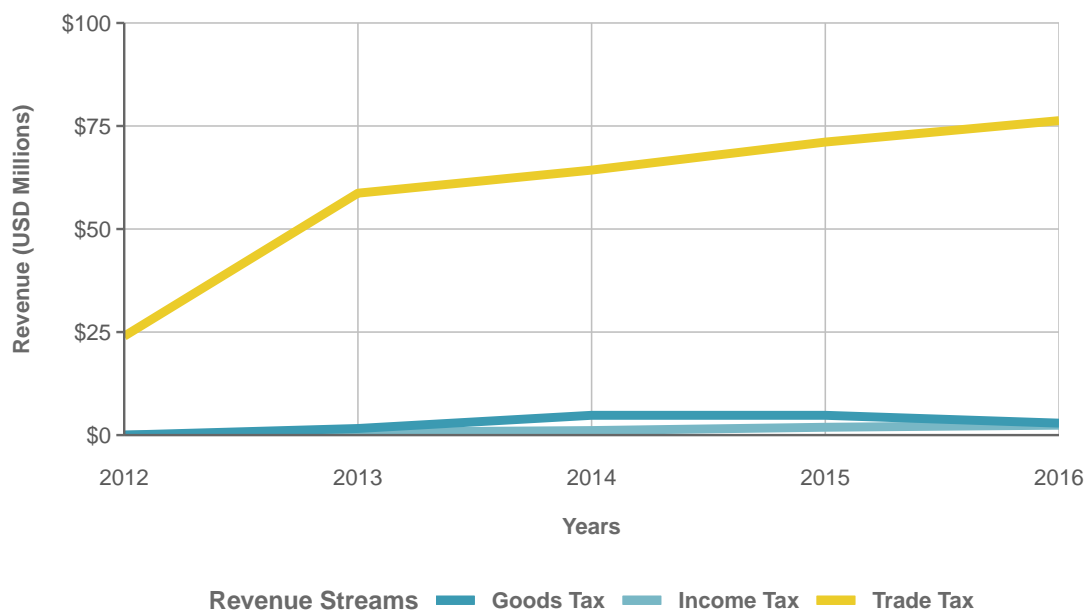
Source: authors' compilation based on data from IMF (2020, 2022); World Bank (2018b, 2021)

The FGS was also only one of the country's several tax-levying authorities. As a result, it received a portion of all domestically generated revenue. FMSs levied taxes in their jurisdictions without oversight or coherency of tax assignments (World Bank 2022b). Clan elders and religious leaders also collected payments and contributions to manage local governance and conflicts and fund basic public services (van den Boogaard 2020). Additionally, Al-Shabaab continued to extort taxes from businesses and communities across the country and, by some estimates (Hiraal Institute 2018), outpaced the FGS in the collection of taxes.¹⁶ Together, these various forms of formal and informal payments constituted a significant share of the total tax burden (Ahmad et al. 2022).

¹⁵ There was no comprehensive revenue system for collection and capturing taxpayer information. Systems were not automated; the central taxpayer registry and tax database existed only on paper and were thus 'subject to mistakes and loss or manipulation of information' (Raballand and Knebelmann 2021: 21).

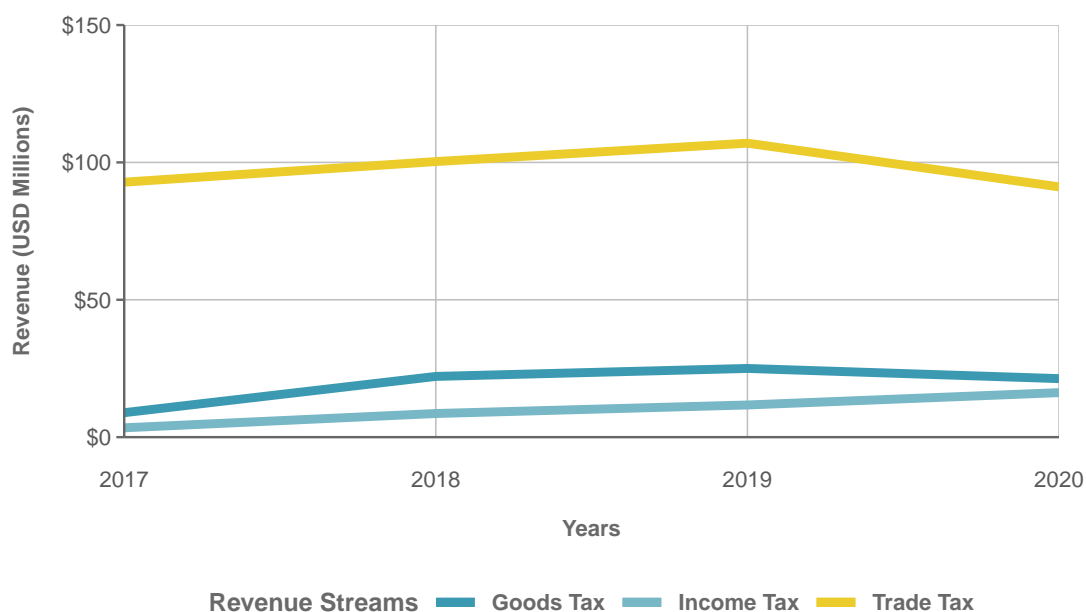
¹⁶ Interview with senior Somali expert (multilateral organization), ID: 638287-638278-71718021, date: 8 February 2021

Figure 3: Tax collection trends (2012–16)



Source: author's compilation based on data from IMF (2020) and World Bank (2018b).

Figure 4: Tax collection trends (2017–20)



Source: author's compilation based on data from IMF (2020) and World Bank (2018b, 2021, 2022b, 2024).

In this context of low domestic revenue capacity, where holding power was aligned with informal institutions and formal institutions were not as productive, the PS could be characterized as a 'highly competitive settlement in crisis' (Khan 2010: 59). The sources of political finance and control of violence were distributed across society (de Waal 2018; de Waal et al. 2020;

Majid et al. 2021). Various elite groups exercised power such that there was no single dominant group of elites (horizontally dispersed), and the legitimacy of the ruling coalition was considerably contested (low vertical power).

For instance, the governments of both President Farmajo and Hassan Sheikh faced significant contestation from excluded actors, including most prominently Al-Shabaab, which continued to control large parts of the country, and sought the establishment of a Sharia state and the overthrow of the internationally backed Somali government (Ahmad et al. 2022; CFR 2024). The FGS also faced contestation from lower-level factions, including FMS leaders (especially Jubaland and Puntland), who were particularly resistant to the efforts of President Farmajo and, to some extent, Hassan Sheikh to centralize power. The contestation and the vulnerability meant that the holding power of elites tended not to have a fixed quality and was subject to rapid change: 'The patterns of bargaining were short-term. The relationships were predicated on a particular power calculus and disintegrated rapidly. There was no expectation that they would continue beyond one or two transactions.'¹⁷

Within this highly competitive settlement, informal institutions of patron–client relations emerged as an important means by which resources were distributed to powerful groups. In particular, cooperation was sustained by elites enjoying privileged access to state resources (rents) and 'copious amounts of foreign aid flowing through the Federal state' (Menkhaus 2018: 25). Several types of rents were generated. The privileged access to external finance and the routine siphoning of aid money were among the most significant sources of rent.¹⁸ Since 2012, Somalia has ranked at the bottom of Transparency International's Corruption Perception Index (CPI) and was the second most corrupt country after South Sudan in 2021 (Transparency International 2021, 2024).¹⁹ Reports by independent agencies also concluded widespread appropriation and siphoning of public money. For instance, between 2018 and 2019, the auditor general (AG) found that of the funds allocated to Somalia from the European Union, totalling US\$17,004,816, only US\$13,266,667 was deposited in the federal government's bank account (Heritage Institute 2021).²⁰

Government contracts and concessions also offered rent-seeking opportunities. Experts in the FGC, a high-level advisory panel comprising government and international representatives,

¹⁷ Interview with conflict expert (international organization), ID: 638287-638278-68996981, date: 7 December 2020.

¹⁸ Interview with senior Somali expert (multilateral organization), ID: 638287-638278-69550831, date: 14 January 2021.

¹⁹ Somalia is still ranked as the second most corrupt country as per the 2024 CPI.

²⁰ These figures were disputed by the Finance Ministry, which pointed out that what the AG reported as corrupt offshore banking was a 'corresponding international bank account which the government used for donor grants'. However, these reports do not belie the scale and nature of the corruption-related challenges, especially in the context of the consistently low CPI rankings.

noted several ‘inconsistencies’ in how concessions were awarded to manage infrastructure assets and deliver government services. Lastly, and quite significantly from the perspective of this study, payments from industry or commerce in exchange for preferential treatment represented a critical source of rental income. As Majid et al. (2021: 21) note, ‘low and negotiated taxes from Telecom, finance, port, and construction companies served as a key component of the political (discretionary funds) budget and also as a type of in-kind loan provided in exchange for tax breaks’. In a nutshell, the Somali PS was an ‘elite division of spoils in which rival political cartels controlled and diverted financial flows to and through the rentier state’ (Menkhaus 2018: 3).

In the next section, I explore how the features of the Somali economy and the nature of the ruling coalition interacted to explain the revenue bargains that emerged between the FGS and actors in the telecoms sector.

4 Asymmetric positioning of power-brokers

Within this settlement, the Somali telecoms sector represented a ‘power-broker industry’, which was domestically focused, subject to regulatory rents, and had considerable ‘holding power’. The power of these actors was based on their fiscal importance and their relative economic position within the wider economy. The telecoms sector generated revenues equivalent to 11% of Somalia’s GDP in 2014 and was among the largest employers (employing more than 25,000 people) (MPIED 2017). While updated figures are unavailable, experts have estimated that the sector earned approximately US\$160–220 million in revenue, which, despite the fragility of the context, was at par with industry standards for the region (Boniecki et al. 2016).

However, the sector’s power and influence were concentrated in a few key companies. Among the most pivotal players were Hormuud, Golis, Telesom (HTG group), Somtel (Dhabshiil group), and Amtel.²¹ These actors were seen to possess greater power on account of their dominance over the broader economy, not just the telecoms sector.²² From its inception, the telecoms sector was imbricated in the financial sector. The growth of the sector was linked to the remittance business, in particular the need to facilitate swifter communication of transactions and meet the growing demand for connectivity among Somalis displaced by the civil war (Iazzolino and Stremlau 2023; Lindley 2009). However, by the late 2000s, telecoms companies had expanded to a variety of sectors, ‘often unrelated to their core business (e.g., rice, cars, electricity, hotels, construction property)’, taking advantage of the economies of scale (Meester et al. 2019: 5). For instance, Hormuud was the majority shareholder in Salaam Bank, Al Buruuj Construction,

²¹ Interview with senior telecoms representative (MVNO), ID: 633591-633582-70935685, date: 25 January 2021.

²² Interview with private sector development expert, ID: 639281-639272-67082913, date: 3 November 2020.

and Banadir Electricity Company (Majid et al. 2021). Likewise, Dahabshiil owned Somtel and Dahabshiil Real Estate and was the majority stakeholder in SomPower (an electric utility company). Thus, as one senior government official described the situation:

If Hormuud was doing telecom, it was also in banking, energy, and agriculture. Hormuud was just taking over the whole country because there was no regulation restricting them from going into other sectors. It was difficult for small companies to break into a sector because they could not compete with Hormuud.²³

Over time, the economic power these companies came to amass was considerably greater than the government's (Chonka et al. 2025). For instance, in 2017 the FGS's budget was substantially lower (approximately US\$268.5 million in 2017) than the US\$1.2 billion circulating in Somalia's mobile money ecosystem every month (Altai Consulting 2017). Additionally, even with the introduction of mobile money regulations in 2019,²⁴ most of this money (e-float) was available for use and investment by the firms since more than 63% of mobile money users did not withdraw or transfer a large proportion of the money out of their accounts (Altai Consulting 2017).

Along with their fiscal importance, lead actors in the telecoms sector also exercised considerable organizational power. They were well networked in patron–client relations with political elites. Businesses regularly bankrolled politicians from different clans and backgrounds to secure their interests. As one expert succinctly put it:

Instead of paying taxes, telecommunication companies secured their advantageous position by financing political campaigns, enabling government officials to divert funds, offering high-level positions to government officials on their boards and buying the votes of Members of Parliament.²⁵

Another way in which they exercised their organizational power was by mobilizing their kinship relations. For instance, groups like Hormuud especially used their clan lineage relations to grow closer to President Hassan Sheikh, who shared the same clan background as many of Hormuud's principal shareholders. Similarly, while President Farmajo was from a different sub-clan to many telecoms actors, the appointment of Prime Minister Hassan Khaire (a Hawiye) was one way in which kinship-based patron–client networks were maintained. Some experts,

²³ Interview with senior government official (Ministry of Planning, Investment, and Economic Development—Planning), ID: 638286-638277-76308750, date: 15 April 2021.

²⁴ The Mobile Money Regulation (2019) introduced some consumer protection rules (GSMA 2021). Still, it 'did not include provisions requiring entities that offered mobile money services to maintain 100% of their e-money liabilities in liquid assets or provide deposit insurance protection to each mobile money account' (GSMA 2021: 8)

²⁵ Interview with private sector development expert (international organization), ID: 638287-638278-68572078, date: 4 January 2021.

in fact, attributed the close relations between Khaire, the Minister of Communications Ashur Hassan, and the head of Hormuud, Ahmed Mohamed Yusuf, to the passage of the Sectoral law:

The World Bank and IFC claimed that the Public–Private Dialogue (PPD) was crucial to the passage of the Act. But there was always a dialogue—they just formalized it. The likely scenario was that the PM just called the operators and asked them to make the contributions. There was also a personal [clan] connection between PM Khaire, Minister Ashur, and the Head of Hormuud. This was what made Hormuud pay the tax. This was also why they could put pressure on the operators.²⁶

Thus, the power of the telecoms sector, especially the key companies, was considerable on account of both their economic position and organizational strength. Furthermore, as power-brokers who earned rents through ensuring exclusive arrangements—what Pritchett et al. (2017) define as a ‘closed deal’—the interests of these actors were aligned towards ensuring that corporate taxes, in particular, were kept low. This is because corporate tax rates were considerably higher, set at 30% of revenue. Given the considerable earnings of the companies, such taxes were likely to hurt their bottom line the most. As one sector executive asserted:

The majority of the [telecom] companies pay a tax. However, we have a problem with corporate tax. Because you know they [the government] have increased it—it is very high (30%). We had told them [the government] that since everything was new, let us start with something small and slowly build up.²⁷

In the absence of a dominant coalition of political elites who could put up any resistance to the sector’s interest in avoiding high taxes and regulations, the revenue bargains resulted in ‘low’ (closed) corporate tax payments. Consequently, a salient explanation for the nature of revenue bargains was the asymmetry in the power of the sector vis-à-vis the ruling elite. In a PS context where power was horizontally distributed and vertically differentiated, actors in the sector occupied an asymmetric position because of the considerable dominance they exercised over the economy. They had greater power than even political elites, which meant they were able to bargain for low corporate tax payments.

In the next section, I explore how the features of the Somali economy and the nature of the ruling coalition interacted to explain the revenue bargains that emerged between the FGS and actors in the telecoms sector.

²⁶ Interview with telecoms expert (multilateral organization), ID: 639281-639272-69536914, date: 27 January 2021.

²⁷ Interview with senior banking representative, ID: 633591-633582-82784210, date: 24 August 2021.

5 Institutional fit

The sector's power-broker status also interacted with the institutional context to explain the informal and negotiated corporate tax rates. The power of the telecoms elites was deeply rooted in informal institutions. As mentioned previously, before the introduction of the NCA, the sector broadly relied on a mix of religious and clan-based institutions to regulate and coordinate economic transactions and business activity (Marchal 1996). These institutions continued to hold significant sway even in the post-transition phase because they ensured the distributional advantage of the key actors and enabled different forms of rent capture. Consequently, attempts at greater formalization were also resisted because formal institutions were institutionally incompatible with the distribution of power.

A primary example of the sector's resistance to formalization was the level of political jostling that it took to establish the NCA. The NCA was passed after 12 years of 'push back' from the sector, which 'exercised its influence over ministers and lobbied presidents and prime ministers' to prevent the act's passage (Abshir et al. 2019: 60). Experts who were involved in the negotiations, in particular, pointed out that the sector feared the regulations would mean greater governmental oversight and also had the potential to increase competition and would result in higher costs and taxes. Formal regulations, therefore, had the potential to affect all aspects of the telecoms business.

Sector representatives, similarly, also expressed profound discomfort with formal regulations. However, they defended their discomfort as stemming from how greater formalization would disrupt the informal arrangements that had thus far facilitated the industry's expansion and growth. As one sector representative put it:

If you look at the level of competition, we [the Somali telecoms market] are number seven globally for cheap data services. Voice calling is also more affordable than in all our neighbouring states. In terms of mobile financial services, we did exceptionally well. Compared to other well-developed African states, like South Africa, we are far more advanced than they were. Again, what this shows is that [formal] regulation is not necessary for success. Regulations are needed to address problems in the sector. If you want to ensure the systems and programmes in place are proper and scrutinized, then regulation is necessary. There was room for regulation, and the industry acknowledged this. We [the industry] had done well, so we asked the government not to disrupt existing structures; instead, we asked them to come up with something new that would enable us to move forward and move further.²⁸

²⁸ Interview with senior telecoms representative (MNO), ID: 633591-633582-72815443, date: 8 March 2021.

Despite all such roadblocks, by 2017 the new FGS administration proved harder to influence and the NCA was finally passed. However, sector leads, specifically Hormuud, had also changed course and began to negotiate on the content of the legislation instead of blocking it at the parliamentary level. Interlocutors pointed out that the main reason why the sector ultimately relented and engaged with the FGS was that it was less costly to influence and undermine the legislation from the inside: ‘When it becomes too expensive to fight it—you take it over from inside.’²⁹

In the final version of the NCA, the government was unable to institute an assessed tax and move away from a negotiated system of payment. For instance, Article 63, which called for communication companies to pay corporate income tax to the Ministry of Finance and also discharge income tax on behalf of their employees, and Article 23 40(5), which obligated licence holders to provide information to the regulatory authority, were ultimately not included in the final version of the law (FGS 2017). The only provision included was Article 6(5), which empowered the NCA to issue licences and ‘propose’ taxes for the management of frequencies, the partition of accounts, coordination, and monitoring of networks and communication services. Thus, as one expert who was closely involved in the dialogue process leading up to the law concluded:

The original version of the law was diluted. This was the version that called for taxes to be paid. Because of the changes, the telecom industry passed the law. The version that passed was a sufficient dilution. Hormuud was not interested in paying taxes compared to the other operators because it was still a one-way cost. There were no longer-term benefits that they would get until the federal government started offering them law and order and security.³⁰

Additionally, the sector resisted the capacity of the NCA to implement even their ‘diluted’ tax responsibilities. The industry leaders insisted on being represented by the board of directors. Of the nine members, three were industry representatives committed to preventing the more formalized system of taxation from being instituted. This was the clearest example of elite capture for many telecoms experts, who pointed out that an independent board was a hallmark of an autonomous regulatory authority because it was the board that could determine what a ‘regulator could and could not do’.

Moreover, the limited power of the ruling elite and the weak administrative capacity of the Somali state, more generally, meant there was little that the government could do to formalize the process. When it came to corporate taxes, the problem was that the government ‘had no

²⁹ Interview with private sector development expert (international organization), ID: 638287-638278-67593610, date: 23 November 2020.

³⁰ Interview with ICT expert (independent), ID: 638287-638278-66054701, date: 7 October 2020.

way of knowing the income earned by the Telecom companies as they did not audit their statements regularly'.³¹ Especially in the case of the bigger players, the Ministry of Finance had little purview over the profits and incomes earned. Consequently, revenue experts maintained that:

Tax agreements between these companies remained very much negotiated. The Ministry of Finance asked Hormuud to pay a certain monthly amount, and Hormuud negotiated on that basis. Post-facto, that got divided into different (income) tax brackets. So, although on the income statement it would say that a certain amount was paid towards corporate taxes and employer contributions, it was pretty ad hoc.³²

The lack of institutional fit explained the telecoms actors' preference for informal and negotiated corporate tax payments and their assiduous resistance to formalized tax arrangements.

6 Elite extraversion

The asymmetric positioning of the sector and the institutional context were related to another factor, which more closely explained why the sector had agreed to pay some amount of corporate tax. Monetized transactions and payoffs had always been a feature of relations between political and business elites during the Siad Barre government and in the period thereafter (Le Sage 2002). Consequently, it was essential to explain why telecoms actors, given their strong positioning, would opt to make more formalized tax payments that would bring them within the state's fiscal ambit.

In recent years, several scholars have noted a shift in the sector's stance from state avoidance to a tentative engagement and investment in the state project (Elder 2022; Musa et al. 2023; Webersik 2014). Elder (2022: 11), for instance, argues that the interests of large Somali businesses, like those in the telecoms sector, had aligned more closely with formal state institutions over time. She argues that these actors had developed 'mutual interests' around national growth, the projection of 'clean' alliances, and the expansion of state authority (and security). A recent firm survey conducted by the World Bank (World Bank 2024) also suggests a recognition of the role and importance of formal state institutions among businesses, with firms reporting substantial trust in these institutions: 78% in the case of FGS and 74% in FMSs. However, while such shifts may explain why the sector was willing to pay specific taxes, especially those that could offer some direct returns, such as regulatory licence fees, they do not en-

³¹ Interview with senior government official (Ministry of Finance—Policy), ID: 638286-638277-69292696, date: 10 January 2021.

³² Interview with financial expert (bilateral organization), ID: 638287-638278-75106495, date: 6 April 2021.

tirely account for the nature of revenue bargaining arrangements around corporate taxes.³³ As one international observer noted, sectors like telecoms had a complex attitude towards state-building:

It was not that Somali elites did not want a state to emerge. They did not want a functional system in place. Many wanted a state that would function on their terms in ways that suited them. That was where there was a push and pull.³⁴

In explaining the ‘push and pull’ in the sector’s attitude towards state institutions, multiple interviewees offered explanations of what Hagmann (2016) has described as elite extraversion. Representatives of international and bilateral organizations, in particular, argued that business-political elites looked to instrumentalize external sources of revenue for domestic political and financial advantage.³⁵ Similarly, the 2018 UN monitoring report mentioned how, for Somalia’s political and business elites, the capture of state resources took precedence over the consolidation of an effective form of governance and the expansion of public services (UN Monitoring Group on Somalia and Eritrea 2018). As Menkhaus (2018: 4) explains, ‘political cartels embraced state-building as a lucrative project, but not necessarily as a desirable outcome’. ‘Similarly, their powerful business allies and backers sought a predictable security environment but not a fully revived state capable of regulating and taxing them’ (Menkhaus 2018: 4). Telecom businesses were, thereby, willing to pay some taxes and maintain the ‘illusion of a state’ (Hagmann 2016: 44), or ‘juridical statehood’ to use Robert Jackson’s (1992) terminology, if it meant they would gain privileged access to external finance. The goal was less to improve state capacity and fiscal self-sufficiency than to gain access to international financing (Gundel 2020).

It was very logical that they would fund a state structure to the extent that it matched their interest. It was a bit of a trade-off; on the one hand, it had to look like a state or a tax bill, but on the other hand, the right interest had to be translated.³⁶

Observers also noted that elite extraversion was not new in Somalia and that the transitional governments (2002–11) followed similar strategies to court more significant foreign aid and investment without investing in efforts to mobilize domestic revenues. However, the IMF and the World Bank’s Debt Relief Programme (HIPC)³⁷ offered a more proximate explanation for why

³³ In another paper I interrogate these dynamics further and in particular explain why the sector was willing to pay some amount of tax even as it evaded other types of payments (Sahgal 2025).

³⁴ Interview with conflict expert (international organization), ID: 638287-638278-68996981, date: 7 December 2020.

³⁵ Interview with conflict expert (international organization), ID: 638287-638278-68996981, date: 7 December 2020.

³⁶ Interview with private sector development expert (international organization), ID: 638287-638278-68572078, date: 4 January 2021.

³⁷ The HIPC Initiative was launched in 1996 by the IMF and World Bank to ensure that no poor country faces a debt burden it cannot manage. To be granted debt relief, countries must meet certain criteria, commit to poverty reduction through policy changes, and demonstrate good fiscal and monetary discipline over time.

elites in the telecoms sector made increased tax contributions in the post-transitional era.³⁸ In particular, if Somalia met its domestic revenue targets and improved its public financial management systems³⁹ and reached the end stage of the debt relief process—‘Completion Point’—it would be entitled to concessional loans from multilateral and bilateral lenders.⁴⁰

Participation in the HIPC and the achievement of intermediate milestones had increased the country’s access to external finances. In 2020, when the country passed the Decision Point milestone, the executive board of the IMF approved US\$395.5 million to support the FGS’s reform agenda and to catalyse concessional donor financing (IMF 2020). Additionally, the African Development Bank granted the FGS US\$7.7 million in May 2020 to improve their revenue systems and institute a more efficient method of tax collection (Gundel 2020).

Given the substantial inflow of international development assistance, there was an incentive for both political and economic elites to invest in revenue-raising efforts with the hope that once the country reached the Completion Point they could unlock even more foreign funding (Gundel 2020). While access to foreign funding was a particular concern for the sector, which also desired the types of investments that greater access to foreign financing would fund,⁴¹ debt relief had also emerged as a tool for elite extraversion. In other words, both sets of actors saw debt relief as an opportunity to earn additional rents from the increased flow of investments and funding. Gundel (2020) points out that political elites seemed more interested in reaching the HIPC Completion Point and unlocking the flow of money from IDA (international development assistance) than in raising revenue from domestic sources in the short to medium term. Experts interviewed for this study also noted that paying some amount of corporate tax was another way that the sector could leverage its connections with political elites to control the flow of development resources and build sector-specific infrastructure that was required to expand its business.⁴²

Additionally, the payment of corporate taxes was part of the effort to support the narrative or the ‘story that the capacity of formal state institutions had improved’.⁴³ In particular, for a state that had previously struggled to mobilize ‘direct taxes’ from the more profitable sectors of the economy, the higher contributions of corporate taxes bolstered the discourse around ‘how the

³⁸ Interview with public finance specialist (multilateral organization), ID: 638287-638278-101191014, date: 28 October 2022.

³⁹ Apart from domestic revenue mobilization, there were several other macroeconomic benchmarks that the country had to fulfil.

⁴⁰ Somalia achieved the Completion Point on 13 December 2023.

⁴¹ As mentioned previously, I unpack these dynamics in another paper (Sahgal 2025).

⁴² For example, optical fibre networks, which required public–private investment.

⁴³ Interview with senior conflict expert (international organization), ID: 638287-638278-71293521, date: 1 February 2021.

FGS's strong policy commitment had helped strengthen public financial management, improve governance, and enhance macroeconomic stability' (IMF 2020: 1). However, the reality was far messier, as senior governance experts pointed out:

There was an agreement between the government and the private sector. The FM had to meet the IMF targets, and the Ministry often did that through windfall payments. This was not a stable or regular flow of revenue. It was not a structured, transparent type of revenue payment. It was just enough to tick the box for the IMF progress to move in the right direction.⁴⁴

Thus, the tactics of elite extraversion related to the debt relief process provided a more proximate explanation and shed greater insight into why telecoms actors were incentivized to make even some type of corporate tax payment in a context where monetized transactions were the norm.

7 Conclusion

To recapitulate, the PS perspective offers a persuasive framing for identifying the causal mechanisms underpinning the low and negotiated rates of corporate and income taxes paid by telecoms actors in Somalia. In particular, the combination of the sectors' considerable holding power within a PS where political elites lacked legitimacy (vertical) and were horizontally dispersed allowed the sector to negotiate tax deals that were 'closed'. Experts also maintained that the debt relief process and the opportunity to earn greater rents incentivized telecoms actors to pay some corporate tax to sustain the image of a formal state. However, even as the sector was willing to pay some tax, the lack of fit between formal and informal institutions meant that efforts to formalize the corporate tax rates under the NCA were resisted, and informal tax arrangements continued to be preferred.

Such findings suggest that incorporating the PS approach to the study of revenue bargains proffers a way forward for addressing some of the limitations of fiscal theory. In particular, the approach offers greater conceptual room for understanding fiscal relations in many African contexts, which did not experience the type of state–society bargains seen in Western Europe. By distinguishing the outcomes of revenue bargains (i.e. the contract) from the negotiation process, such perspectives underscore how the overarching PS shapes such bargains. Specifically, the nature of the compatibility between the distribution of power and the nature of institutions influences the negotiating position of the ruling elite and groups of taxpayers and,

⁴⁴ Interview with former country director for Somalia (bilateral organization), ID: 638287-638278-66322362, date: 20 October 2020.

ultimately, determines the types of revenue bargains that emerge, including those that may not always lead to positive exchanges of taxation but can result in foregone revenue.

The framing also emphasizes the need for studying the bargaining position of specific groups of taxpayers, rather than focusing mainly on the power of the ruling elites. Namely, it draws attention to the fiscal importance of revenue providers as salient for understanding the nature of revenue bargains. Furthermore, as Pritchett et al. (2017) suggest, tax incentives of revenue providers also vary by the type of tax instrument and need to be disaggregated and studied. In the Somali case, telecoms sector elites were willing to pay other types of taxes even as they continued to pay corporate taxes on a negotiated basis. These findings underscore what Wilson and Rosenzweig (2022) also find, that rather than an overarching social contract, tax instruments have different tax bases; therefore, a unique set of preferences determine how individuals evaluate state service delivery and decide whether to comply with tax payments. It is therefore critical, as the PS perspective highlights, to disaggregate and assess both the power of revenue providers and the incentives as they relate to specific tax instruments (Wilson and Rosenzweig 2022).

Together, a central theoretical contribution of the PS lens is that it places the political economy context as being critical to debates on how specific types of revenue bargains emerge and why, despite the best intentions and design, domestic revenue mobilization policies can continue to be particularly challenging, especially from the more profitable sectors of the economy.

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Appendix A

This study adopts a qualitative methodology following a process-tracing (PT) approach. The PT method is ‘a within-case method of tracing the process linking a cause (or conjunction of causes) with an outcome’ (Beach and Rohlfing 2018; Gerring 2008: 7). The added value of this method is that it enables strong causal inferences to be made about how ‘a cause’ is linked to a specific ‘outcome’. Moreover, the method helps to adjudicate among alternative causes or explanations (Bennett 2010).

The data collection was conducted within the first ten years of the post-transitional government (2012–21) and covered the presidency of Hassan Sheikh Mohamud (2012–16) and Abdullahi Mohamed ‘Farmajo’ (2017–21). The reason for selecting the post-transition period was motivated by the research question. Specifically, fiscal relationships emerged primarily in the post-transitional era, when the permanent federal administration was formally elected. The fieldwork was completed before the installation of the present administration, which took office in 2022. This study focuses on the sector’s relationship with the federal government, rather than the FMSs, which represents a narrower framing. However, this approach was deliberately adopted because, despite the passage of the Revenue Act, which provided the legal basis for the federal government to work with FMSs to harmonize revenue, the assignment of tax responsibilities had not been clearly defined before 2022 (World Bank 2022a). Therefore, specific provisions regarding revenue sharing and assignments related to the telecoms sector were missing when this research was conducted.

The sampling frame included 345 potential respondents, identified through an intensive mapping exercise of key actors in the telecoms sector, the federal government, and representatives from international and national development organizations. Of these, 240 people were contacted, and interviews were completed with 110 respondents. The data collection process followed a multi-sited approach. This research was conducted during the COVID-19 pandemic; consequently, many of the interviews were initially conducted virtually. By 2021, when some travel restrictions were lifted, physical interviews were conducted in Somalia with the help of research partners. The research partners arranged and facilitated interviews with Somali-speaking respondents. In 2022, as Somalia remained a high-risk country for foreign travel, face-to-face interviews were conducted in Nairobi, Kenya. Nairobi was chosen as the site for fieldwork due to its substantial Somali population (Carrier and Elliott 2018), particularly Somali businesspeople, who, as other studies have also found, spend considerable time travelling to and from the country (Ahmad 2015). Table A1 provides a demographic breakdown of the key informant interview (KII) respondents.

The data analysis process began with ‘soaking and probing the empirics of the case’ (Beach and Pedersen 2019: 2). The underlying literature was reviewed ‘to gain clues about the po-

tential explanations' that could link a cause to the outcome (Beach and Pedersen 2019: 2). Based on the review, three explanations were identified (see Section 4). Next, a coding framework was developed, which divided the data into a fewer dimensions (codes) to help manage, shape, and make sense of the information (Gerring 2017: 19). The codes were initially constructed from the causal explanations identified in the literature (concept-driven generation). The framework was later revised based on the empirical data (data-driven generation) through the process of subsumption (Schreier 2014). Next, consistency checks were conducted to strengthen the reliability and quality of the framework. Segments of the interview material were coded twice to assess whether the assignment of material to codes was systematic. The framework was again tested on the empirical data to modify shortcomings before the primary analysis was carried out (Schreier 2014). In total, 51 primary and 393 sub-codes were developed as part of the coding framework. The coding framework was loaded in NVivo software, where the data was analysed. Frequency checks were conducted to examine patterns and concurrences across codes and to determine the nature of the relationships between the coded data.

As with all studies, this research suffers from a few methodological limitations. First, qualitative PT methods are designed for observing causal processes within a particular case (Bennett 2010; Bennett and Elman 2006) and are less suitable for making generalized statements (external validity) (Beach and Pedersen 2019). However, even as generalized statements could not be made, the value of the methodological design was that it proffered a convincing explanation of the mechanisms underpinning the tax incentives of large telecoms actors in Somalia. Furthermore, in offering such explanations, the attempt was to make theoretical contributions that could be applied to additional cases with similar causal characteristics (Beach and Pedersen 2019).

A second and equally important constraint was the limited access to fieldwork sites within Somalia, which affected the quality of the data. First, many interviewees were less comfortable with an online format. Second, interviewees who were not based in Mogadishu found it challenging to access a stable internet connection. However, the multi-sited strategy, involving fieldwork in Somalia (with the assistance of researchers) and Nairobi, helped broaden the sampling frame and allowed for deeper and richer conversations.

Table A1: Interviewee profile

Demographic	Experts	Government	Government (int.)	Non-govt	Private sector	Research org.	Other	Total
Location								
Kenya	0	1	1	23	4	4	1	34
Other	5	1	0	12	0	1	1	20
Somalia	0	22	0	6	14	0	2	44
Somaliland	0	0	0	1	2	0	0	3
United Kingdom	2	0	1	5	0	0	1	9
Total	7	24	2	47	20	5	5	110
Age								
23–27 years	0	1	0	0	0	0	0	1
28–32 years	0	2	0	2	2	0	0	6
33–37 years	2	7	0	15	6	4	1	35
38–42 years	0	5	0	9	7	0	1	22
43–47 years	2	2	0	4	1	0	0	9
48–52 years	1	1	2	8	2	0	0	14
53–57 years	1	4	0	2	1	1	1	10
58–67 years	1	2	0	7	0	0	0	10
68+ years	0	0	0	0	1	0	0	1
No response	0	0	0	0	0	0	2	2
Total	7	24	2	47	20	5	5	110
Gender								
Female	3	2	0	17	0	1	0	23
Male	4	22	2	30	20	4	4	86
Other	0	0	0	0	0	0	1	1

Source: author's compilation.