The Impact of Tax Revenue on Economic Development in Somali Region of Ethiopia

By Bashir Sheik Abdirahman Nur

A DISSERTATION

Presented to the Department of
Economics
program at Selinus University

Faculty of Business & Media
in fulfillment of the requirements
for the degree of Doctor of Philosophy
in Economics

Italy-2025

DECLARATION

I, Bashir Sheik Abdirahman Nur, hereby affirm that the work submitted for this dissertation titled "**The impact of tax revenue on economic development in Somali region of Ethiopia**" is my original undertaking and is not submitted for any other degree or qualification program in my knowledge. The research work presented in this dissertation is undertaken with due course in ethical standards and guidelines set by **Selinus University of Science & Literature**.

I confirm that all sources of information and data used for this dissertation have been accordingly attributed and referenced. Any assistance from individuals and institutions rendered in the basis of this dissertation has been duly acknowledged.

This dissertation represents my independent research and reflects my own ideas and contributions to the field of Tax revenue impact on Economic Development in Somali Region of Ethiopia.

Date: March, 2025

Signature: *Bashir Nur*

Student ID.No: **UNISE2379IT**

Selinus University of Science & Literature

Economic Department

CERTIFICATE OF

IMPACT OF TAX REVENUE ON ECONOMIC DEVELOPMENT

This certifies that: Mr. Bashir Sheik Abdirahman Nur has successfully completed the analysis and evaluation of the Project Title**: The Impact of Tax Revenue on Economic Development in the Somali Region of Ethiopia, Date of Completion: [March, 2025]**

Summary of Findings:

The research conducted highlights the critical relationship between tax revenue and economic development, demonstrating that effective tax collection is essential for improving infrastructure, creating job opportunities, funding public services and fostering overall economic development in Somali Region of Ethiopia. Key findings of this research include:

- Tax revenue collection is a vital for financing essential services such as infrastructural development, job creation and public education and healthcare services.
- Increased tax revenue collection can motivate economic activities by enhancing productivity and facilitating trade activities.
- A transparent and efficient tax system builds trust and encourages compliance among citizens.
- Challenges such as political instability, weak administrative capacity, high employees' turnover, and a large informal economy in the region need to be addressed to maximize revenue potentials in the region.

Significance: This analysis contributes to understanding how tax revenue can be principal as a powerful tool for sustainable economic development by improving basic infrastructures and public services in the region.

Authorized Signature:

Professor: Salvador Fava

Selinus University of Science & Literature

March, 2025

ACKNOWLEDGMENTS

I would like to express my gratitude to all those who have supported me throughout my PhD journey. This dissertation would not have been possible without the guidance and encouragement of my advisor, Dr. Salvador Fava, whose expertise and insights were precious to my research.

Additionally, I thank my dissertation committee members Dr.[…………………..] and Dr.[………………….] and Dr.[………………] for their critical comments and help accompanying the development of this work. Each of their viewpoints has played an influential role in shaping my research.

I will essentially value the financial support received from my ever-loving brothers living in U.S.A, Switzerland and Canada- which made this research possible. In addition to that, I will also thank institutions like Jigjiga University, Bureau of Revenue, Bureau of planning and Economic Development (BoPED) and Rural Road Authority in Somali Region for the material resources provided and the indispensable part in making my studies possible.

On a personal note, I would like to thank my family for their unlimited support and encouragements. To my Brothers, A/llahi, A/yare, Mohamed, Mahmoud and Ahmed, their encouragement and belief in capacity to complete my PhD study in Economics has been a constant source of motivation. To my beloved families, for their patience, love, and understanding my situation during the challenging times of my research.

Finally, I would like to extend my appreciation to my friends and coworkers in the Jigjiga University and other institutions in jigjiga town (Dr. Bashir JJU President, Dr. Abdi-rauf Academic Vise President, A/kadir M. Shukri (Revenue Bureau Deputy head), Ahmed Arab (Assistance prof), Abshir Warmahaye & A/Rashid Somane , whose companionship and support made this journey enjoyable and fulfilling.

Thank you all for being a part of this wonderful chapter in my life.

ACRONYMS AND ABBREVIATIONS

ARDLA – Autoregressive Distributed Lag

BoPED- Bureau of Planning and Economic Development

CSA- Central Statistical Agency

COMESA- Common Market for Eastern and Southern Africa

EEA- Ethiopian Economic Association

ETB- Ethiopian Birr

EIT- Employment Income Tax

FGD- Focus Group Discussion

GDP- Gross Domestic Product

GFCF- Gross Fixed Capital Formation

IDA- International Development Aid

IDPs- Internally Displaced Peoples

IMF- International Monitory Fund

IT- Income Tax

INGOs- International Non-Governmental Organizations

JJU- Jigjiga University

LDC- Less Developed Countries

OLS- Ordinary Least Square

PRA- Participatory Rural Appraisal

RQ- Research Question

RIT- Rental Income Tax

SRS- Somali Regional State

SRRRA- Somali Region Rural Road Authority

SSA- Sub Sahara Africa

TE-Total Expenditure

TIN- Tax Identification Number

TR- Total Revenue

UNICEF-United Nations Children's Fund

UNDP- United Nations Development Program

VAT- Value Added Tax

WHT-With Holding Tax

TABLE OF CONTENTS

ABSTRACT

This study investigates the impact of tax revenue on economic development in the Somali Region of Ethiopia. It aims to explain the relationship between effective tax revenue collection and economic development indicators such as infrastructure development, job creation opportunities, public service provision, and overall economic growth. Despite the region's rich economic resources and geopolitical strategic location, challenges such as political instability, limited administrative capacity and a large informal economy in the region hinder the effective tax revenue collection and proper utilization.

Through a mixed-methods approach, this research mainly uses qualitative method analyzing questionnaires and interviews insights from stakeholders, including government officials, business leaders, and community members and some quantitative data from revenue institutions. The findings indicate that enhanced tax revenue significantly contributes to economic development by funding essential public services and infrastructure projects. Additionally, the study highlights the importance of reasonable tax policies and strong governance structures in improving public trust and compliance.

The research concludes with recommendations for reforming tax administration, broadening the tax base, and influencing technology to improve revenue collection and administration efficiency. By addressing existing challenges and implementing strategic reforms, the Somali Region administration leaders have the opportunity to use tax revenue as a powerful tool for sustainable economic growth and improved living standards for its population if revenue collection and utilization are properly administered.

Key words: investigate, Impact, effective tax revenue &utilization and economic development

CHAPTER ONE

1. INTRODUCTION

1.1Background of the Study

Taxes are important for economic development. The economic development of any nation depends on the amount of resources generated and under its control to finance its infrastructural need and meet its day to day expenditure. The resources needed is believed however to be generated from external and internal through a structured tax system. Economic development means improving living standards that refer to higher level of education and literacy, improve workers' income, health, and lifespans. It is the process in which an economy grows or changes and becomes more advanced, especially when both economic and social conditions are improved. Economic development is the processes in which people in a country become wealthier, healthier, better educated, and have greater access to good quality housing (Behrman, 2017).

Taxation lies at the crucial intersection of public goods & services provision, employment generation, income redistribution, social safety nets and government accountability. Tax revenues also allow countries to be less reliant on foreign aid and natural resource revenues. However, many African countries struggle to collect an adequate amount of taxes. The primary function of a tax system is to raise enough revenue to finance essential expenditures on the goods and services provided by government and tax remains one of the best instruments to boost the potential for public sector performance and repayment of public debt as postulated by Okoye and Ezejio for, (2014).

This research aims to investigate the impact of tax revenue on economic development in the Somali region. The study will explore the relationship between tax revenue collection and key economic development indicators in the region, such as infrastructure development, job creation, public services, and social programs. Historically, the region has faced challenges including political instability, limited infrastructure and low investment on public service and social programs. However, after regional decentralization of Ethiopian country significant efforts have been made to enhance the economic potential of the region and tax revenue collection has emerged as a crucial component of this transformative process.

The Somali Region of Ethiopia has a diverse economic landscape, including sectors like; livestock, agriculture, trade, and services. Taxation policies and revenue collection mechanisms directly influence the growth and development of these sectors. When tax revenue is effectively collected and administered, it can lead to improved public services, infrastructure development, create employment opportunities and investment in agriculture and livestock sector, education and healthcare system.

Ethiopian country as a whole has been experiencing remarkable economic growth over the past decade, and the Somali Region of Ethiopia located in the eastern part of the country is no exception to this phenomenon. Tax revenue collected within the region has the potential to significantly impact its economic development. IMF projection shows that Ethiopia's GDP growth in 2023 at 6.1% will be significantly higher than that of 2022 (3.8%). While, UNDP projects at 5% growth in 2023, reflecting a solid recovery. COVID 19, drought, Northern Ethiopia conflict and Ukraine crisis (UNDP, 2023)

Moreover, tax revenue can also contribute to strengthening government administrative, serving society, reduce fraud, bribery and corruption among the community and also maintain rule of low. If tax revenue collection is transparent, efficient, and equally distributed for equal level of businesses and individuals may build trust between the government and its citizens. This trust, in turn, fosters a sense of accountability and encourages compliance. By promoting tax compliance, the region can establish a sustainable revenue base, reduce reliance on external aid and promote fiscal self-sufficiency. Nevertheless, there are many challenges that hinder in optimizing tax revenue collection in the Somali Region including; Informal economic activities, limited tax awareness, weak institutional capacities and shortage of capacity building for employees. Additionally, addressing issues related to tax evasion, tax avoidance and informal cross-border trade is crucial for ensuring a fair and equitable tax system in the region..

Finally, the impact of tax revenue on the economic development of the Somali Region in Ethiopia cannot be underestimated. Effective tax collection, allocation, and utilization can contribute to improved public services, infrastructure development, local economic empowerment, and reduced corruption. Addressing these challenges and implementing appropriate policies, the Somali Region can enhance the potential of tax revenue to fast-track its economic growth and transform the lives of its people.

1.2 Statement of the Problem

Despite the fact that tax revenue has the potential to significantly impact the economic development of the Somali Region in Ethiopia, there are several challenges that need to be addressed in order to optimize its effectiveness. These challenges include political instability, limited infrastructure, informal economic activities, weak institutional capacities, tax evasion, and tax avoidance, unskilled employees for offices or customs and informal cross-border trade.

The above mentioned factors hinder the region's ability to collect and utilize tax revenue effectively, thereby delaying its economic growth and development. Addressing these challenges it is crucial to create a sustainable and equitable tax system that can solve the region's economic challenges and improve the lives of its residents.

Tax revenue is an essential source of funding for public infrastructure, education, health, judicial systems and creating job opportunities etc. A well-functioning revenue-generating system is required for strong, long-term inclusive economic growth (Carnahan, 2015). Several empirical studies have examined on the significant contribution of tax revenue to economic development, mainly in emerging countries.

However, the establishment of efficient tax systems and collection of tax revenues are enormous challenges for these countries. First, agriculture and informal businesses employ the vast majority of employees in these countries. Second, without a well-educated and well-trained team, it is difficult to build efficient tax administration. Third, many developing nations have an informal economy, and statistical and tax departments struggle to generate tax revenue because of financial constraints (Tanzi & Zee, 2001). Similarly, in developing countries, inadequate tax collection is attributed to both economic growth and institutional quality (Lien, 2015).

The Somali Region had a political unrest in the past that has affected economic activities and the collection and use of tax revenue effectively. Poor infrastructure can be a barrier in carrying out economic activities and also hampers the government’s effective management of tax collection team especially for the remote districts and zones in the Somali Region. Another factor is the prevalence of informal economic activities, such as small-scale trading and informal cross-border trade that are challenges for tax collection. Informal businesses often operate outside the formal tax system, leading to revenue outflow and reduced tax revenue collection.

Limited institutional capacities within the region also hampered the efficient administration of tax collection. Insufficient training for the employees, lack of skilled personnel, and inadequate technology infrastructure can hinder the government's ability to enforce tax laws, identify potential taxpayers, and effectively collect taxes. Tax evasion and avoidance practices undermine the effectiveness of tax revenue collection. Some individuals and businesses engage in illegal activities to escape taxes, while others use legal excuses to minimize their tax liabilities.

These practices reduce the overall tax revenue collected and create an unfair burden on compliant taxpayers. Remaining to reality that Somali Region shares borders with neighboring countries Somalia, Kenya and Djibouti, and informal cross-border trade is prevalent. Strengthening border controls and implementing effective tax collection mechanisms for cross-border trade is essential to maximize tax revenue in the region.

Addressing these challenges it requires further studies reinforced by the regional state and educated members of the society with a view of improving the political stability, undertaking infrastructural development, strengthening institutional frameworks, increasing taxation acceptance, enforcing strong tax compliance, and encouraging informal sectors to formalize. Addressing these challenges, the Somali Region can build favorable environment for raising tax revenues which could support the region to achieve the economic development objectives.

1.3. Research Questions;

The research study will address the following questions:

- What is the current status of tax revenue collection in the Somali region of Ethiopia?
- How does tax revenue impact the infrastructure development of the region?
- What is the relationship between tax revenue and employment creation in the Somali region?
- How is tax revenue distributed among the public services and social programs in this region?
- What are the obstacles to effective tax revenue utilization for the economic development of the Somali region?

1.4 Objectives of the Study

General Objective

- The general objective of the study is to examine the impact of tax revenue on economic development in the Somali Region of Ethiopia

Specific Objectives; In order to achieve the major objectives, the researcher developed the following specific objectives;

- To analyze the current tax revenue collection system in the Somali region of Ethiopia
- To assess the relationship between tax revenue and infrastructure development in the region.
- To investigate the impact of tax revenue on job creation in the region.
- To examine the allocation of tax revenue towards public services and social programs in the region.
- To identify obstacles to effective tax revenue utilization for economic development in Somali Region

1.5 Research Hypothesis

For the successful accomplishment of the study, the following research (null and alternative) hypotheses were formulated by the researcher;

H_0: Tax revenue collection has no relationship with Infrastructure development in the Region

H_1: Tax revenue collection has a positive relationship with Infrastructure development in the Region

H_0: Tax revenue collection has no impact on job creation in the Somali Region

H_1: Tax revenue collection has a significant impact on Job creation in the Region

H_0: There is no tax revenue allocation towards public services and social programs in the region.

H_1: There is tax revenue allocation towards public services and social programs in the region.

1.6 Significance of the Study

The findings of this research will provide valuable insights for policymakers, government agencies, and development organizations involved in economic development planning and implementation in the Somali region of Ethiopia. The study's outcomes can inform evidence-based policy decisions, improve tax revenue collection practices, and contribute to the efficient utilization of tax revenue for sustainable economic development. Furthermore, other fellow researchers can use this research as an input to engage into further inquiries into the details of impact of tax revenue on economic development in the country. Finally, the study can be the first step for future research engagement of the similar topics.

1.7 Scope of the study

The study will explore the relationship between tax revenue and key indicators of economic development. The study has focused on analyzing current tax revenue collection in Somali Region by assessing the relationship between tax revenue and economic development indicators such as infrastructure development, job creation, public service and social programs in the region. The scope of the study is constrained in Somali Regional Revenue Bureau, 11zones and 95 districts revenue offices in the Somali Region of Ethiopia and 6 city administrations and 1,224 villages *(kebeles)* administration units existing in the Somali region. Moreover, the study used macro variable data for the time series ranging from 2015 -2024GC

1.8 Limitation of the Study

In the course of carrying out the study, the following major limitations were encountered

- Difficulty in getting access to statistical data from respective Somali Regional Bureaus and related district offices during the research period.
- The researcher was in difficulty to access important statistical data and financial reports of the Somali Region Revenue Bureau, because of confidentiality issues.
- This research topic is the first time conducted in Somali Region and Ethiopia in general, this prompted a enormous challenge in getting an outline for the study. In addition, there are also poor infrastructure roads connecting districts and zones of the region. However; the researcher has done his best to overcome these challenges and completed the study in a matured manner.

1.9 Organization of the Dissertations

The research study is presented in five chapters. The First chapter deals with introductory part of the dissertation including background of the study, problem of statement, objectives of the study, research questions, significance of the study, and other sub-sections. The second chapter reviews related and relevant literatures. The third chapter, deals with the research methodology, while the fourth chapter deals with results and discussions, finally the fifth chapter is about conclusions and recommendations based on findings of the study.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

This chapter reviews related past theoretical and empirical literature on the impact of tax revenue on economic development. The review is structured in six sub sections. The first section presents theoretical perspectives (definition of tax revenue and economic development), which is followed by a review of objective of taxation as a second section, the third section states the good principles of taxation, the fourth section displays the relationships between tax revenue and economic development indicators, the fifth section reviews empirical studies both globally and country level. Finally, the sixth section presents conceptual frame work, concluding remarks and the research gap observed by the researcher.

2.1 Theoretical perspectives

Tax is a compulsory payment by citizens to the government without the anticipation of a straight and corresponding benefit from the government for the payment made by the taxpayers. Tax revenues include both direct taxes and indirect taxes. Direct taxes are personal income tax, property tax and corporate profit tax while value-added tax (VAT) , customs fees, excise and Tariffs, are examples of indirect taxes. Tax revenue is critical to the long-term viability of economies all over the world. According to Kesner-kreb & Kuli (2010), taxation is the central foundation of income for every government in both developed and developing countries to finance public expenditure.

2.1.1 Definition of Tax revenue and Economic Developments

Tax revenue is defined as the revenues collected from taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes. Total tax revenue as a percentage of GDP indicates the share of a country's output that is collected by the government through taxes. It can be regarded as one measure of the degree to which the government controls the economy's resources.

The significance of tax policy is important for governments for several reasons; to generate revenue as taxation which is most important source of government revenue, to discourage purchases of certain products and promote desirable behaviors, to change distribution of income and wealth.

Tax policy is defined as all the sets and main instructions that determine the structures of a tax system and make it possible to finance public spending and support economic activity while, tax reform is the process of changing the existing tax system or the current situation to a new level of tax system so that the tax system can serve the main objective of financing government expenditure and meet other objective in short and long run economic policies both in developed and developing countries (Delesa, 2014; Dessalegn, 2014; Cliche, 2012).

The Oxford Advanced Learner's Dictionary defines tax as: "Money that has to be paid to the government so that it can pay for public services". People pay tax according to their income and businesses pay tax according to their profits, tax is often paid on goods and services. Tax is restricted to compulsory, unreturned payments to general government. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments. Tax is defined as a financial charge or levy imposed upon an individual or legal entity by a state, to support government expenditure or defined tax as a monetary charge imposed by the government on persons, entities, transactions or properties to yield revenue and can be collected without any direct benefits attached with (William, and Andrew, 2014).

Economic development can be broadly defined as the structural transformation of an economy through the introduction of more mechanized and updated technology to enhance labor productivity, employment, income, and the population's standard of living. Various measurements of economic development have emerged as a result of the ambiguity of specific definitions of economic development, such as structural changes in GDP, per capita income, full employment, normative values, improvement in human status, physical quality of life index, human development index, poverty index, and sustainable development.

Economic development: is all about improving living standards. Improved living standards refer to higher levels of education and literacy, workers' income, health, and lifespans. It is the process in which an economy grows or changes and becomes more advanced, especially when both economic and social conditions are improved. Economic development is the processes in which people in a country become wealthier, healthier, better educated, and have greater access to good quality housing (Behrman, 2017).

Economic development is related to an increase in output coupled with improvement in the social and political welfare of people within a country while Economic growth deals only with an increase in the level of output. Economic development refers to “a policy intervention effort targeted at the economic and social wellbeing of people. The focus of economic development is on improvement in the quality of life of people, introduction of new goods and services using modern technological, mitigation of risk and dynamics of innovation and entrepreneurship” (Hadjimchael, Kemeny & Lanadan, 2014).

Economic development is defined as a sustained improvement in material wellbeing of society. Economic development is a wider concept than economic growth. Apart from growth of national income, it includes changes of social, cultural, political as well as economic which contribute to material progress. It contains changes in resource supplies, in the rate of capital formation, in size and composition of population, in technology, skills and efficiency, in institutional and organizational set-up. These changes fulfill the wider objectives of ensuring more equitable income distribution, greater employment and poverty alleviation.

Economic development: is a process in which a nation is being improved in the sector of the economic, political, and social well-being of its people (Krueger &Myint, 2019). Economic development is the process by which emerging economies become advanced economies. Economic development also refers to the process by which the overall health, well-being, and academic level of the general population improves. During the development, there is a population shift from agriculture to industry, and then to services. A longer average life expectancy, for example, is one of the results of economic development. Improved productivity, higher literacy rates, and better public education, are also consequences (Sen, 2019).

2.2 Objective of taxation

The primary goal of taxation is to generate income to cover government expenditures as well as to redistribute wealth and control economic activities (Jhingan, 2004). According to Anyanwu 1993 and Nzotta 2007, taxes play a role in allocation, distribution, and stabilization. The allocation function of taxes consists of determining the pattern of production, the items that should be produced, who produces them, the connection between the private and public sectors, and the social balance between the two sectors (Ojong et al., 2016). However, in this research will focus on the following arguments as the main objectives of taxation;

Rising of Revenue: The main objective of tax system is the raising of the revenue required to meet the expenditure. This income required to preserve the provision of goods and services which members of privet sectors cannot provide such as defense, law and order and infrastructural facilities.

Full Employment**:** Since the level of employment depends on effective demand, it is believed that, if a country is willing to achieve the goal of full employment it must cut down the rate of taxes. Consequently, disposable income will rise and hence demand for goods and services will rise. Increased demand will motivate investment leading to a rise in income and employment through the multiplier mechanism.

Economic Development**:** Economic development of any country is largely conditioned by the growth of capital formation. It is said that capital formation is the principal of economic development. But LDCs usually suffer from the shortage of capital. To overcome the scarcity of capital, governments of these countries mobilize resources so that a rapid capital accumulation takes place. To increase both public and private investment, government hits tax revenues through proper tax planning; the ratio of savings to national income can be raised.

By raising the existing rate of taxes or by imposing new taxes, the process of capital formation can be made smooth. One of the important elements of economic development is the raising of savings- income ratio which can be effectively raised through taxation policy.

***Economic Price Stability*:** taxation can be used to ensure price stability as a short run objective of taxation. Taxes are considered as an effective means of controlling inflation. By raising the rate of direct taxes, private spending can be controlled. Naturally, the pressure on the commodity market is reduced. But indirect taxes imposed on commodities fuel inflationary tendencies. High commodity prices, on the one hand, discourage consumption and encourage saving. Opposite effect will occur when taxes are lowered down during deflation.

It has been said that the most fundamental reason a government has for taxing its citizens is to provide a reasonable degree of price stability within the nation (summer field, et al, 1980). Most spending by the public and private sectors without taxes generate high demand, which is inflationary. In such a situation, the basic function of taxation is to reduce private expenditure in order to allow governments spend without causing inflation. Thus, taxation is basically a deflationary measure.

***Control of Cyclical Fluctuations*:** control of cyclical fluctuations periods of boom and depression is considered to be another objective of taxation. During depression, taxes are lowered down while during boom taxes are increased so that cyclical fluctuations are controlled.

***Reduction of BOP Difficulties*:** taxes like custom duties are also used to control imports of certain goods with the objective of reducing the intensity of balance of payments difficulties and encouraging domestic production of import substitutes.

***Wealth Redistribution*;** the redistribution of wealth is a policy aiming to balance economic disparities, often through taxes and welfare programs. It seeks to provide a safety net for the less privileged and fund public services, promotion of a more equitable society. This has two quite distinct forms.

- The first doctrine believes that taxation should be based on ability to pay and is summarized by the saying that "The greatest burdens should be borne by the broadest backs".
- The second assumes that the present distribution is unjust and concluded that this should therefore be undone. This second principle perceives elimination as legitimate objectives of taxation.

2.3 The Principles of good taxation

Given the many levels of taxation (Federal and Regional states) the main purpose of the government is to increase revenue collection, while most of tax payers argue; tax laws vary constantly, lack of awareness on the rate of tax to pay, when to pay, where to pay and to whom to pay. To this end, economists forwarded as the principles of good taxations should be;

Efficient - A tax system should raise enough revenue such that government projects can be efficiently sponsored, without burdening the economy too much (tax payers), as not to become a discouragement for their performance.

Equitable - Taxation should be governed by people's ability to pay, that is, wealthier individuals or firms with greater incomes should pay more in tax while those with lower incomes should pay comparatively less.

Certainty – tax rules should be clearly specified when and how a tax is to be paid and how the amount will be determined. Certainty may be viewed as the level of confidence a person has that a tax is being calculated correctly.

Simplicity – tax payers should be able to understand the rule and obey with them correctly. A simple tax system better enables tax payers to understand the tax consequences of their actual and planned transactions, reduces errors and increases respect for that system.

Neutrality – the tax law's effect on a tax payer's decision whether or how to carry out a particular transaction should be kept to a minimum.

Transparency – taxpayers should know that a tax exists, and how and when it is imposed on them or others. Taxpayers should be able to easily determine the true cost of transactions and when a tax is being evaluated or paid, and on whom or where.

Minimum Tax Gap – a tax should be structured to minimize negation. The tax gap is the amount of tax allocated less the amount collected. To gain an acceptable level of Agreement, rules are needed. However, a balance must be set between the desired level of agreement and the tax system's cost of performance and the level of unacceptability.

Convenience – a tax should be due at a time or in a manner most likely to be convenient to the tax payer that helps to insure compliance. Taxes should be collected at a time convenient for the Taxpayers. For example, the pay as you earn income tax on salaries and wages deducted weekly or monthly as the case may be as income is received, is a good example of the principle of convenience. Convenience as a principle of taxation has to do with the enforcement of tax and administration.

Eckeston (1983) has said that a good tax should not impose taxes that are impossible to enforce even when people comply to tax laws voluntary, the government should verify the tax payments, if not the tax becomes an invitation to break the law. Adam (1910) has pointed out that every tax ought to be levied at the time or in the manner in which it is likely to be convenient for the contributor to pay it.

Using this principle as a researcher argue that the convenient time for tax payments in Somali region is; for income tax of employees/workers to be at the end of each month, while the profit tax for business organizations/companies to be the end of each fiscal year, whereas, pastoralists and agro pastoralists resides in rural areas could be after the harvest time and tax administers should impose to taxpayers legal and logical payable amount of tax based on their ability to pay.

2.4 Tax revenue and Economic Development Indicators

2.4.1 Relationship between tax revenue and infrastructure development

The relationship between tax revenue and infrastructure development in the Somali region of Ethiopia, or any other region for this matter, is complex and multidimensional. Development economists have considered physical infrastructure to be a precondition for industrialization and economic development, where physical infrastructure, in general, consists of two parts: economic infrastructure such as telecommunications, roads, irrigation, and electricity; and social infrastructure such as water supply, sewage systems, hospitals, and school facilities (Murphy, Shleifer, and Vishny 1989).

It has been demonstrated that physical infrastructure development improves the long-term production and income levels of an economy in both the macroeconomic endogenous growth literature (Barro 1990; Futagami, Morita, and Shibata 1993) Moreover, a number of micro studies have shown that development of infrastructure is one of the indispensable components of poverty reduction (Van de Walle 1996; Lokshin and Yemtsov 2005; Jalan and Ravallion 2003; Jacoby 2000; Gibson and Rozelle 2003).

Infrastructure is typically thought of as those fundamental and necessary services that must exist before development can take place. Infrastructure can also be used to refer to the physical structures needed for civilization to function. Infrastructure refers to the fundamental physical and institutional components that make up a society, such as its industries, buildings, roads, bridges, health services, government, and so forth while transportation (road, rail, ocean, air, and pipeline), telecommunication, and power are examples of infrastructure components or elements.

Infrastructure refers to activities that are considered "social overhead capital" and have two key characteristics: economies of scale in production and spillover effects from users to non-users. It is business, or the goods, services, and conveniences needed for an economy to run .

According to Todaro and Smith (2011), the presence of physical, social, and economic infrastructures can support and expedite the development of infrastructural systems. Access to infrastructure not only increases household income directly by improving production; it also has indirect effects, such as changing consumption, saving, and investment decisions as well as facilitating accumulation of social capital.

According to Dasgupta and Serageldin 2000; Durlauf and Fafchamps 2005; Hayami 2009), wide variety of infrastructure evaluation results using either experimental or no experimental methods, infrastructure's role should be regarded as a facilitator of strengthening mutual matches between market, state, and community mechanisms, as community mechanisms play a critical role in correcting both market and government failures.

2.4.2 Relationship between tax revenue and Job Creation

The relationship between tax revenue and job creation is a genuinely debated in economic and political issue. Some analysts claim that higher taxes lead to lower employment, by reducing the availability of capital to be invested in job-creating enterprises, or by reducing the amount of money available for consumers to use to purchase goods and services, thereby causing a loss of business for broadcasters of those goods and services.

Other commentators claim that higher taxes lead to higher employment, because governments use those tax revenues to employ government workers, who then purchase goods and services from private businesses and because governments themselves may act as consumers of goods and services. Higher taxes have also been claimed to increase the confidence of outside investors in the stability of the government, and in the government's willingness and ability to pay debts.

On local scales, it has also been claimed that higher taxes in one area (region, or country) will motivate businesses to move their operations to other areas with lower taxes. However, it has conversely been claimed that some authority with relatively high tax burdens experience higher employment than some authority with relatively low tax burdens, based on the infrastructure and government services that may be provided to businesses operating in that authority.

Nevertheless, the impact of taxation on job creation and employment is a controversial topic among economists and policymakers. Some argue that high taxes can restrict economic growth and discourage businesses from expanding and hiring new employees. Others contend that tax revenue can be used to fund public investments and social programs that stimulate job creation. In examining the effect of taxation on job creation and employment,

In 2023, the unemployment rate in Ethiopia remained nearly unchanged at around 3.5 percent. The unemployment rate of a country or region refers to the share of the total workforce that is currently without work, but actively searching for employment. It does not include economically inactive persons, such as children, retirees, or the long-term unemployed.

Finally, to promote job creation, this research proposes to consider various perspectives and assess the potential benefits and drawbacks specified the following paragraphs.

Tax incentives for businesses; One approach to promote job creation is by using tax incentives for businesses. These incentives can take various forms, such as tax credits, deductions, or lower tax rates for certain companies or businesses. Supporters of this approach, argue that these measures encourage businesses to invest in expansion and hiring additional employees as they reduce the overall tax burden. For instance, a government may offer a tax credit to businesses that hire a certain number of new employees within a specified period. This motivates companies to increase their workforce and contribute to employment growth.

Taxation policy on small businesses; Taxation policies can have a significant impact on small businesses, which are often considered the backbone of many economies. High taxes can place a heavy burden on small businesses, limiting their ability to expand and create jobs. Conversely, reducing tax rates for small businesses can provide them with the necessary resources to invest in growth and employment. This can be particularly beneficial in sectors that heavily rely on small businesses, such as retailers, small & new businesses and services. By alleviating the tax burden on these enterprises, governments can raise job creation and support local economies. For example, lowering tax encourage a number of small businesses which in turn hire a number of employees that may increase job creation of the societies and increase formal business with TIN numbers.

Tax revenue allocation & utilization; another aspect to consider is how tax revenue is allocated and utilized by the government. Some argue that higher taxes can be justified if the funds are used to invest in infrastructure, education, or research and development. These public investments can create a favorable environment for businesses, leading to job creation in the long run. For example, improving transportation infrastructure can attract new businesses to an area and create employment opportunities. However, it is vital for governments to ensure efficient and effective allocation and utilization of tax revenue to maximize the positive impact on job creation.

International competitiveness; Taxation policies can also influence a country's international competitiveness and attractiveness for businesses. High corporate tax rates, for instance, may discourage foreign direct investment and cause companies to relocate to authorities with more favorable tax regimes. This can result in job losses and reduced employment opportunities domestically. Therefore, policymakers need to slowdown a balance between generating tax revenue and maintaining a competitive business environment. Lowering corporate tax rates or implementing tax reforms that incentivize investment and job creation can help countries remain attractive to businesses while supporting employment opportunities.

A balanced Approach; Even though there are opposing views on the effect of taxation on job creation and employment, a balanced approach is often considered the best option. This involves implementing tax policies that walkout a balance between generating revenue for public investments and supporting businesses' ability to expand and create jobs.

I, as a researcher argue that a combination of tax incentives for companies, targeted support for small businesses, efficient allocation of tax revenue, and maintaining international competitiveness can contribute to job creation and economic development.

2.4.3 Relationship between tax revenue and public Expenditure

Public expenditure refers to the government expenditure. It is incurred by central and Regional state governments in Ethiopian context. The public expenditure is incurred on various activities for the welfare of the people and also for the economic development, especially in developing countries. In other words, the expenditure incurred by public authorities like central, state and local government to satisfy the collective social wants of the people is known as public expenditure Akrani (2010).

Public expenditure is a pre-requisite of economic development. The public sector initially provides economic infrastructures such as roads, railways, water supply and sanitation. As economic growth take place, the balance of public investment shift towards human capital development through increase spending on education, health and welfare services. In this model, the state is assumed to grow like an organism making decision on behalf of the citizens. Society demand for infrastructural facilities such as education, health, electricity, transport etc. grow faster than per capita income.

Types of public expenditure

- Current expenditure or Government final consumption expenditure on goods and services, for current use to directly satisfy individual or collective needs of the members of community.
- Capital expenditure or fixed capital formation (or government investment) government spending on goods and services intended to create future benefits, such as infrastructure, investment in transport (roads, railways and airports) health (water collection and distribution, sewage systems, communication (telephone, radio, and tv) and research assessments spending topics.

- Transfer payment; spending that does not involve transaction of goods and services, but instead represent transfer of money, such as social security payments, pensions and unemployment benefits.

Financing public goods and services are essential for the functioning of society and include infrastructure, education, healthcare, defense, law enforcement, and social welfare programs. The efficient use of tax revenue in public expenditure is also critical for economic development.

A study by Gupta, Davoodi, and Tiongson (2002) investigated the impact of public expenditure efficiency on economic growth in developing countries. The findings indicated that countries with more efficient public expenditure systems achieved higher economic growth rates.

- **Tax revenue could be used to finance public goods and services as follows**:

Infrastructure: Tax revenue is often allocated to fund the construction, maintenance, and improvement of infrastructures (roads, bridges, airports, railways, and public transportation systems). These investments are necessary for economic development and facilitate the movement of goods, services, and people.

Education: Tax revenue is used to support public schools, colleges, and universities. It covers expenses like teacher's salaries, school furniture facilities, textbooks, and educational resources. By funding education, governments aim to provide equal opportunities for all citizens and promote human capital development.

Healthcare*:* Tax revenue is allocated to healthcare systems to ensure access to quality medical services for the population. It funds public hospitals, clinics, vaccination programs, public health initiatives, and research. The goal is to promote public health, prevent diseases, and provide medical cares to those are in need of.

Defense and Security: Governments allocate tax revenue to national defense and security agencies to protect the country's sovereignty, borders, and citizens. It funds armed forces, intelligence agencies, law enforcement departments, and emergency services. These expenditures help maintain peace, security, and stability within the country.

Social Welfare Programs: Tax revenue is also used to finance social welfare initiatives like social security, unemployment benefits, disability benefits, and public assistance programs.

These programs aim to provide a safety net for vulnerable populations, alleviate poverty, and ensure a basic standard of living for all citizens.

Purpose of Public Expenditure: Government spends money for a variety of reasons, including

- To supply goods and services that private sector would fail to do, such as public goods, including defense, roads and bridges, merit goods such as hospital and schools, and welfare payments, including unemployment and disability benefit.
- To achieve supply-side improvements in the macro- economy, such as spending on education and training to improve labor productivity.
- To reduce the negative effect of externalities, such as pollution controls.
- To help the redistribution of income and achieve more equity.
- To inject extra spending into macron-economy, to help achieve increases in aggregate demand and economic activity.

Challenges of Public Expenditures.

- Corruption and inefficiency for the implementers
- Inadequate resource and time allocation from government
- Donor funding is not reliable, or might not be given on time.
- People evade taxes or even fail to declare wealth.
- Lack of awareness for both Tax collectors and taxpayers.

The causal relationship between government revenue and government expenditure is an issue that has generated excited debate globally, over the years, among economists and policy analysts. An understanding of this relationship is critical in the formulation of a sound or excellent fiscal policy to prevent or reduce unsustainable fiscal deficits.

2.4.4 Relationship between tax revenue and Social welfare program

The relationship between welfare and taxes is that taxes are a key source of revenue for the government to fund welfare programs. Welfare programs are designed to provide financial and social assistance to individuals and families who are in need of support due to poverty, unemployment, disability, or other factors**.**

However, the impact of tax revenue on these programs is a complex and multidimensional issue, with different perspectives and considerations to take into account.

Funding Adequacy: One of the key factors to consider when examining the impact of tax revenue on social welfare programs is the adequacy of funding. Adequate funding is essential to ensure that these programs can effectively address the needs of the target population. Insufficient tax revenue can result in underfunded programs, leading to limited resources and services available to those who rely on them. On the other hand, excessive tax revenue may lead to the misallocation of funds and inefficiencies in program implementation.

Balancing Priorities: Governments face the challenge of balancing competing priorities when allocating tax revenue to social welfare programs. They must consider the needs of various segments of society, such as healthcare, education, housing, and unemployment benefits, among others. Each program requires a different level of funding, and striking the right balance is crucial. For instance, a government may need to prioritize investing in education to ensure a skilled workforce for future economic growth while also providing adequate support for those in immediate need.

Equity and Fairness: Another critical aspect to consider is the equitable distribution of tax revenue among different social welfare programs. Governments must ensure that their allocation decisions are fair and just, taking into account the diverse needs and circumstances of their citizens. For example, a progressive tax system that imposes higher tax rates on the wealthy and lower rates on lower-income individuals can help promote a more equitable distribution of resources to fund these programs.

Effectiveness and Efficiency: The impact of tax revenue on social welfare programs also depends on the effectiveness and efficiency of their implementation. It is crucial to evaluate the outcomes and impact of these programs to determine whether they are achieving their intended goals. Governments should regularly assess program performance, identify areas for improvement, and ensure that tax revenue is being used efficiently to maximize the benefits for the target population.

Balancing Economic growth; While social welfare programs are essential for addressing societal needs, it is vital to strike a balance with the broader goal of promoting economic growth.. Excessive taxation can have negative effects on economic activity, investment, and job creation. Therefore, governments must consider the potential impact of tax revenue on economic growth when allocating funds to social welfare programs. This requires careful analysis and consideration of the trade-offs involved.

Overall, tax revenue plays a critical role in funding social welfare programs and maintaining a balanced budget. Adequate funding, balancing competing priorities, equity and fairness, effectiveness and efficiency, and balancing economic growth are all important considerations when evaluating the impact of tax revenue on these programs. Striking the right balance is crucial to ensure that funds are allocated effectively, benefiting the target population while also fostering economic growth.

- **Types of funding for social welfare programs**

Government funding;- Government is one of the primary source of funding for social welfare programs. This type of funding includes grants, subsidies, and other forms of financial support provided by the government to non-profit organizations, charities, and other entities that work towards the betterment of society. For example, in Ethiopian country, some of the schools are given school grant, school feeding food while some teachers are given housing assistance..

Private Funding - Private funding is another significant source of funding for social welfare programs. This type of funding includes donations and grants from private individuals, corporations, and foundations. Private funding can be used to support a wide range of social welfare programs, including education, healthcare, and housing. For example, the Bill and Melinda Gates Foundation provide funding for education programs in developing countries.

Community Funding: Community funding refers to funding that is raised by local communities to support social welfare programs. This type of funding can be used to support a variety of programs, including food banks, homeless shelters, and community centers. Community funding can be raised through donations, fundraising events, and other initiatives.

Therefore, there are several types of funding available for social welfare programs, each with its own benefits and drawbacks. While government funding provides a stable source of financial support, private and community funding can provide more flexibility and innovation in program design and implementation. Ultimately, a combination of these funding sources may be necessary to ensure the success and sustainability of social welfare programs.

Challenges of funding of Social Welfare

Limited Government Budgets: One of the primary challenges in funding social welfare program is the limited availability of government budgets. Governments around the world have to allocate funds to various sectors, such as education, healthcare, defense, and infrastructure, in addition to social welfare programs. With a finite amount of resources, it becomes challenging to adequately fund all social welfare initiatives, resulting in tough choices and trade-offs. For example, a government may need to prioritize funding for primary education over expanding health care services.

Economic Downturns: during periods of economic downturns, funding for social welfare programs often takes a hit. As governments face decreased revenue and increased demands on their budgets, they may be forced to make budget cuts in various areas, including social welfare programs. For instance, when a recession occurs, governments may need to reduce spending on unemployment benefits or job training programs due to fiscal constraints..

***Complexity of program implementation*;** the implementation of social welfare programs can be complex and resource-intensive. From designing effective policies to establishing distribution mechanisms, there are numerous steps involved in setting up successful social welfare initiatives. Unfortunately, this complexity can also lead to higher costs and inefficiencies in funding the programs effectively. For example, administering means-tested benefits, such as income support or housing assistance, requires extensive administrative infrastructure and can be costly to maintain.

Changing Demographics**;** changing demographics attitude a challenge in funding social welfare programs. As populations age or migrate, the demands for specific services may evolve, requiring adjustments in funding allocations. For instance, a country with an aging population may face increased demands for healthcare services or elderly care, necessitating additional funding to meet the changing needs of its citizens. Failure to recognize and adapt to changing demographics can strain social welfare programs, this type is not common in Ethiopia..

Political Priorities and Partisanship**;** Political priorities and partisanship can significantly influence the funding of social welfare programs. Different political parties often have varying perspectives on the role of the government in providing social welfare, resulting in variations in funding levels and priorities. Changes in government leadership or shifts in political ideologies can impact the financial support for these programs. This can lead to fluctuations in funding, causing disruptions or inconsistencies in service delivery. For example, a change in government may result in reduced funding for certain social welfare programs that were deemed crucial by the previous administration.

Finally, funding social welfare programs faces multiple challenges, including limited government budgets, economic downturns, program implementation complexities, changing demographics, and political priorities. Recognizing these challenges are crucial to finding innovative solutions and ensuring the effective delivery of social welfare services to those in need.

2.5.1 Empirical Studies on tax and economic development in case of global studies

Empirical studies on taxes and economic development in developing and developed countries fiscal policies can affect economic growth and economic development. Policies such as increasing public spending on healthcare and education or reducing tax rates can positively influence the stock of human capital and support economic growth in the short term and economic development in the long term. Many scholars and researchers are interested in analyzing the relationship between fiscal policy and economic growth in developing and developed countries. The interest sparked because of the necessity to stimulate the rate of economic growth and to reduce the budget deficits because of inefficient government spending..

Past literature has recognized conflicting findings on the impact of taxation towards economic development in developed and developing countries. Research about taxes and economic growth in developing countries is enormous but concentrated to Africa and Middle East. In South Africa, Ocran (2011) examined the effect of fiscal policy variables, including government gross fixed capital formation (GFCF), tax and government consumption expenditure, and budget deficit on economic growth from 1990 to 2004. He used quarterly data in the estimation with the aid of the vector regressive modeling technique and impulse response functions. The findings indicated that government consumption expenditure, GFCF from the government, and tax receipts positively affect output growth.

Similarly, Eugene and Abigail (2016) studied the impact of taxation policies on the overall economic growth from 1994 to 2013 using the OLS method. The results confirmed the positive impact of a tax on Nigerian economic growth. Babatunde et al. (2017) investigated the impact of taxation on economic growth from 2004 to 2013 in 16 African states using the panel data. They found a significant and positive relationship between tax revenues and GDP, which suggests that tax revenues accelerate the economic growth of African states.

In Nigeria, Ojong et al. (2016) examined the impact of tax revenue on the Nigerian economy from 1986 to 2010. They examined the impact of company income tax and the effectiveness of non-oil revenue on the Nigerian economy. Ordinary least square (OLS) of multiple regression models were used to test the relationship between dependent and independent variables. Their finding reveals a significant relationship between petroleum profit tax and the growth of the

Nigerian economy. However, no significant relationship is found between company income tax and the growth of the Nigerian economy. A number of studies in developing countries have found, however, that taxes do not significantly affect economic growth.

Meanwhile, in Pakistan, Ahmad and Sial (2016) examined the relationship between total tax revenues and economic growth using annual time series data from 1974 to 2010. The autoregressive distributed lag (ARDL) bounds testing approach for co-integration was applied to estimate the long-run and short-run relationship among the variables. The results show that total tax revenues have a negative and significant effect on economic growth in the long run. The finding suggests that a 1% upsurge in total taxes would reduce the economic growth by 1.25%. In their research on developing countries,. Korkmaz et al. (2019), observed similar findings in their research of the Turkish economy where taxes are significantly and negatively associated with economic growth.

Widmalm (2001) found a negative relationship between direct income taxes and economic growth. However, the adverse effects of indirect taxes on economic growth are not confirmed. The finding is later supported by the latest study in Tanzania (Maganya, 2020). Mdanat et al. (2018) analyzed the Jordan tax structure and its implications on economic growth between 1980 and 2015 by using error correction techniques. Their study provided empirical evidence, which entails that direct and indirect tax structure is insufficient to help improve the economic growth of Jordan, particularly when the country faces poor fiscal performance. In addition, Jordan has an inefficient fiscal structure that should determine politicians within their politics to focus more on increasing the GDP per capita by addressing the importance of consumption taxes and customs duties. They believed that sustainable economic growth could only be achieved if poverty and inequalities are to be reduced and living conditions are to be improved.

Research in developed countries also produces mixed findings. Poulson and Kaplan (2008) explored the impact of tax policy on economic growth in the US within the framework of an endogenous growth model. They conducted the regression analysis to estimate the impact of taxes on economic growth from 1964 to 2004. The analysis showed a significant negative impact of higher marginal tax rates on economic growth. This evidence suggests that taxes can significantly impact economic growth. The government has a choice of direct1 and indirect2 taxes to determine the efficiency of the allocation of resources, either through tax revenue or improvement of economic growth.

Numerous factors can also have an impact on economic growth. From the European Union countries, Armeanu et al. (2018) conducted an empirical study on the sustainability factors of economic growth rate in the EU-28 member countries by using data panel regression models and by applying fixed and RE and the generalized method of moments. They include sustainability factors, such as the high level of education, the economic and business environment of a country, technology, infrastructure, communications, people's lifestyle, media, and demographic changes in measuring the real growth rate of the GDP. They highlighted a positive connection between the economic growth and the level of the expenses for the education of the students between the ages of 18 and 26 years and the expenses for the research and development and the degree of employment of the fresh graduates. They also found that the indicator regarding the perception of corruption is negatively associated with economic development. Research that makes a comparison between developed and developing countries using panel data also found conflicting results..

Additionally, Indirect taxes have a positive link with economic growth in selected developed and developing countries, according to Hakim (2020). Similar to this, studies conducted in developing economies have shown that indirect taxes have a favorable impact on economic growth (Korkmaz et al., 2019; Nguyen, 2019). Tariffs and domestic goods and services taxes are two additional tax forms that have a direct impact on the economic growth of countries (Maganya, 2020; Mdanat et al., 2018). It is undeniable how taxes affect other aspects of the economy, like investment and unemployment.

Numerous research has produced contradictory results regarding how taxes affect investment. Taxes have a significant impact on investment, according to studies by Abdioglu et al. (2016), 0proved that FDI in developed nations is responsive to host country taxation, but not in developing countries. The existing literature revealed that taxes significantly impact the unemployment rate. In developed nations, the unemployment rate rises when the tax rate on labor is high, according to studies by Disney (2000) and Seward (2008). Similarly, Nikolka's (2016) report on taxes and the female labor force supports the claim.

The discussion in the above literature review identifies several gaps. There seem to be inconclusive results of the impact of taxes on economic development, either in developed or developing countries. Next, this study does not only examine the impact of direct and indirect taxes on GDP but also on other indicators of economic development, namely infrastructure and job creations, which limited study has done so far. This study focuses more on the impact of tax revenue on economic development indicators that may produce interesting results compared to prior studies.

2.5.2 Tax revenue in case of Ethiopian country

The history of formal and legal taxation in Ethiopia date back to the period of Imperial regime, and it came to play a crucial role. The income tax policy was officially introduced between 1941 and 1943, during the time of the Italians occupation. Since then, the country has predominantly relied on two major types of taxes: direct and indirect taxes. The former is paid directly to the government by a companies or individuals from personal income, rent, business profit, withholding and related revenues. This indicates that tax base of the country is not sufficiently diversified.

Recently, the Ethiopian government has made efforts to enhance the tax bases by introducing various tax policies and administration reforms such as excise tax, income tax, VAT, and property taxes. In 2020/21 the actual revenue and grant of the country accounted for 11% of the GDP, while the expenditure stood at 13.8%. However, these proportions reduced to 9.2% and 12.7% in 2021/22, respectively. In 2022/23, the share of both revenue and expenditure drastically dropped to 4.7% and 8.2%. In the fiscal year, the GDP share of revenue had experienced a larger reduction (48.9%) than the expenditure (35.4%), which implies that effort of the government in reducing expenditure was not parallel to the change in revenue. The debt service to revenue ratio of Ethiopia in 2022/23 was 31% while SSA countries, on average, had 17% highlighting that Ethiopia possesses a very low revenue base compared to SSA countries.

According to the years (2017/18 to 2021/22) about 52% of the total national budget was allocated and distributed to regional states based on their respective shares. The maximum share (53.8%) occurred in 2021/22, which indicated that in the fiscal year the federal government provided attention for regional level activities.

Consequently, the Somali region received a subsidy of 20 billion Birr from the Federal government as a block grant, constituting 72.8% of the regional annual budget. In the previous five years the regional state tried to increase its own revenue generation capacity, but still, it got more than 78% of the annual regional budget from the federal government in the form of block grant. This suggests that domestic revenue of the regional state is insufficient to cover its expenditures.

Relatively to taxes from payroll, rental income and profits have taken the prominent share of the Somali region direct tax revenue collection over the previous few fiscal years. The domestic resource mobilization efforts of the country face challenges from a number of factors such as illicit financial outflows, slow structural transformation, and substantial tax incentives including tax holidays and other exemptions. Tax evasion or tax avoidance may be the major component of illicit financial flows (UNDP, 2016).

Since downfall of former regime and the implementation of regional decentralization in Ethiopia in 1991, the Somali regional state has been granted the power to levy and collect taxes and non-tax revenues within the region for economic and social activities as identified by the constitution under the region's jurisdiction. In 2018 the region financed 14% of its budget from its own regional sources (of which tax revenue accounted for more than 74%) (UNICEF, 2018).

Direct taxes dominated the tax revenue of the region contributing more than 60% of the total revenue in most of the fiscal years. The region's spending has increased eightfold from 1billion in 2007/08 to 8.5 billion birr in 2015/16. A study made by the Ethiopian Economics Association (EEA) in 2023/24 on the examining the revenue potential, tax bases and efficiency and administration capacity of Somali region showed that a huge revenue potential that could be mobilized for overall economic development.

The Federal Government budget approved by the Ethiopian Parliament on July 6, 2023 amounted to Birr 802 billion, equivalent to $15bn in USD terms and 7.1 percent of this year's anticipated GDP. Around 65% of the Government's overall spending is to be funded by domestic revenue and grants, while the remainder will be covered by domestic borrowing (30%) and external lenders (5%). An estimated Birr 480bn is expected to be collected during the fiscal year.

The highest share of revenue, Birr 188bn or 39% of the total, is expected to come from trade taxes. Direct taxes (Birr 141bn, including corporate and income taxes) are expected to account for 30% of revenue, while the remaining sources include indirect taxes such as VAT (Birr 112bn) and non-tax revenue (Birr 39bn).

Expenditure is set to rise by only Birr 15bn versus the previous year of 2022. This reflects a level decline in capital expenditure (down by Birr 15bn or 7 percent) offset by a Birr 25bn increase in current expenditure and a Birr 5bn increase in subsidies to Regions. Continuing recent trends, capital expenditure is now just 35% of total expenditure despite having once taken up as much as two-thirds of total spending. Debt service is again the largest expenditure item in Ethiopia's budget, accounting for 28% of total spending and now increasingly devoted to covering domestic rather than external debt service payments. Other large expenditure items are: Roads (Birr 68bn, 12% of the total), Education (Birr 59bn,10%), Defense (Birr 50bn, 9%), and Health (Birr 23bn, 4%).

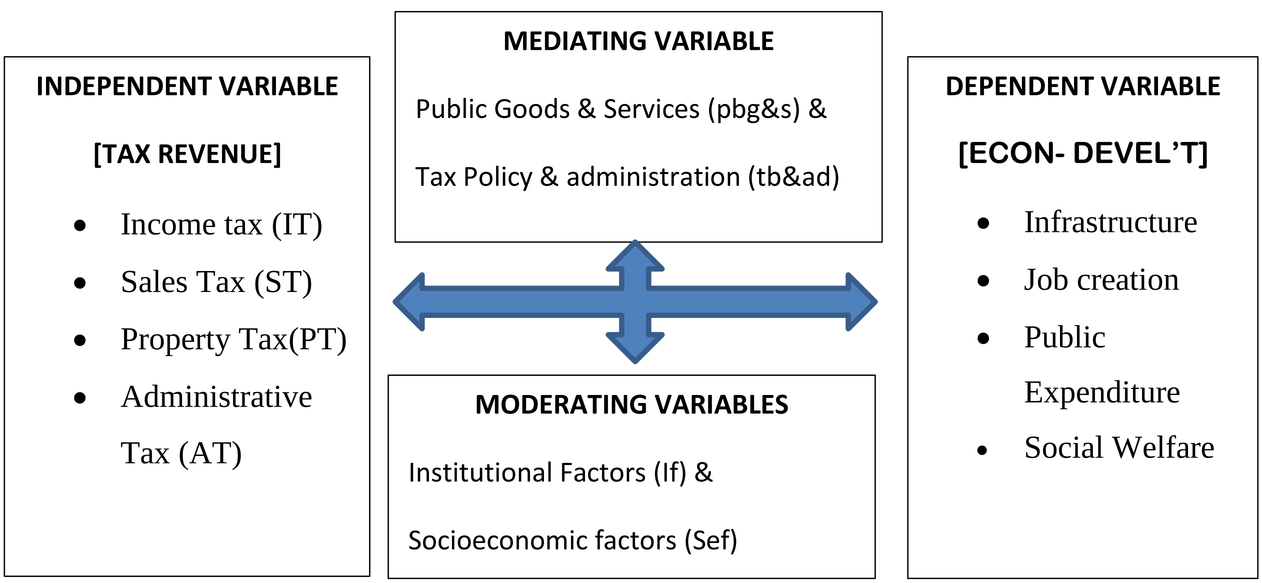
External Financing a total of Birr 281bn required to finance the deficit, only Birr39bn ($0.7 billion) is expected from foreign borrowing (mainly from the Word Bank (IDA) and China EXIM Bank per breakdowns shown in the budget document). Domestic Financing: most of the burden of financing the budget deficit will fall on domestic lenders, and will be met by a mix of Treasury Bills (bought mainly by the state bank and pension funds), Treasury Bonds (purchased by private banks in amounts equal to 20% of their gross lending) and Direct Advances (borrowing from the central bank). At the same time, if external funding inflows turn out higher than is currently assumed in the budget as would be the case with an IMF/WB program and external debt service relief, this would sharply reduce the burden faced by domestic lenders and bring much better prospects for improved banking system credit to the private sector.

Revenue Trends and Composition in Ethiopia**:** The overall revenue outturn for fiscal year 2022-23 is expected to reach 85% of the set budget. Tax revenue exceeded the budget figure by 2%, reaching 87% of the target. Non-tax revenue also recovered from the conflict impact, reaching 75% of the budget. External grants achieved 79% of the budget.

The budget revenue for FY 2023-24 is estimated to be Birr 480bn (about $9 bn). Of this, 85%, or Birr 440 bn, is expected to come from tax revenues, which remains very low in Ethiopia, compared to other countries in sub-Saharan Africa. This reflects the country's large informal economy and the low tax compliance rate; moreover, the shocks the economy faced in the past few years have disproportionately affected tax paying sectors. As per 2022/23 data from SRS Revenue Bureau, the revenue collected in monetary terms was 9,812,231,364.90 ETB in which direct revenue was 35%, non -tax revenue 39%, indirect revenue 10% and municipality accounts 16%. (See the table in the Annex).

2.6 Conceptual Framework

Conceptual framework is a written or graphic presentation that "explains either graphically, or in narrative form. The main things to be studied, the key factors, concepts or variables and the presumed relationship among them and it can also be defined as a set of broad ideas and principles taken from applicable fields of investigation and used to structure a subsequent presentation and the relationship between independent variable and the dependent variable. The conceptual framework provides a structure for understanding the impact of tax revenue on economic development in the Somali Region of Ethiopia. The framework outlines the key variables and relationships that need to be considered when examining the impact of tax revenue on economic development.



Source: Author's own construction based on different literatures.

ED = f [TR (,pbg&s, tb&adm, If &Sef)] , Where TR (IT, ST, PT and AT)

E D is a function of Tax revenue and other = (mediating & Moderating variables)

DEPENDENT VARIABLE: Economic Development: This refers to the overall growth and improvement of the Somali Region's economic indicators like; infrastructure development, job creation, provision of public goods and services and social welfare.

INDEPENDENT-VARIABLE: Tax Revenue: This represents the total amount of revenue collected by the government through taxation in the Somali Region. Types of taxes include; income tax, sales tax, property tax, and corporate tax and administrative tax.

Mediating-variables: *Public Expenditure*: The amount of government spending in the Somali Region, which includes investments in infrastructure, healthcare, and other sectors can influence economic development through its impact on the provision of public goods and services.

- *Tax Policy and Administration*: The design and implementation of tax policies, tax rates, tax incentives, and the efficiency of tax administration. Effective tax policies and administration can encourage compliance, minimize tax evasion, and optimize the revenue collection process.

Moderating-variables:

- *Institutional Factors*: The quality of governance, rule of law, and effectiveness of institutions in the Somali Region. Strong institutions can enhance tax compliance, reduce corruption, and provide a better environment for economic development.
- *Socioeconomic Factors*: Factors such as education levels, income distribution, employment rates, and social welfare programs. These factors can influence tax compliance, revenue collection, and the redistribution of tax revenue for development purposes.

2.6.1 Conclusion and identifying literature gaps

This conceptual framework provides a basis for understanding the impact of tax revenue on economic development in the Somali Region of Ethiopia. By considering the relationships between tax revenue, public expenditure, tax policy & administration, institutional factors & socioeconomic factors, researchers can gain insights into the mechanisms through which tax revenue influences economic development and identify policy implications for promoting sustainable and inclusive economic development in the region.

The literatures incorporated in this research are mainly secondary data collected from different sources such as scholarly journal articles, internet, books and theses. Most of the literatures use economic growth rather than economic development. The study literatures combined for this research are evaluated based on relevance, accuracy, authority, objectivity, and coverage

Economic development indicators in reviews of literature related on the impact of tax revenue on economic development remained the main concentration, like infrastructural development, employment generation and public expenditure previously discussed under review of empirical literature parts; related researches from developed and developing nations concerning this topic are also incorporated in this research,

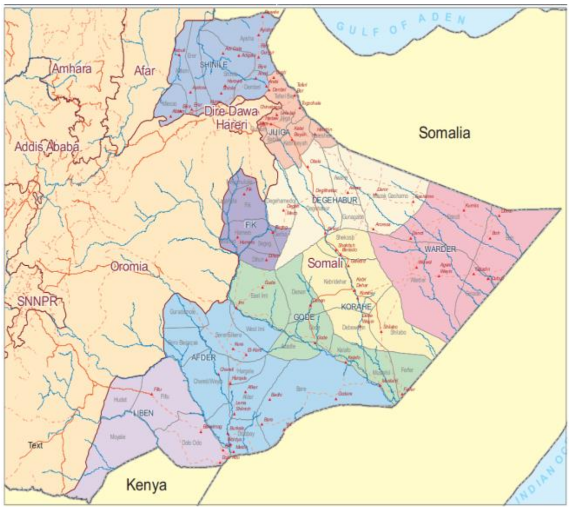
However, in Ethiopian country insignificant researches related to this topic are accessible, whereas in Somali Region this topic is the first ever research conducted related to the impact of tax revenue on economic development. Thus, it attempts to fill the gap in existing literature and could be ingredient reference for government, policy makers and ground work for further researchers.

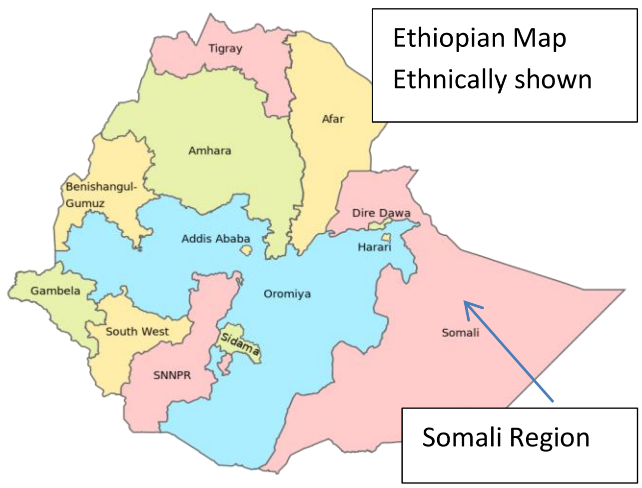
CHAPTER THREE

3: DATA AND METHOLOGOLY

As specified in the first chapter, this chapter deals with data and methodology of the dissertation. In more details, in this part the author outlines the descriptive of the study area, research design and approach, data collection method, indicators & measures, statistical techniques employed the ethical considerations and the anticipated research limitations of the dissertations.

3.1 Descriptive of the Geographical Study area





The Somali Region is one of the nine ethnically based regional states of the Ethiopian country and is primarily inhabited by ethnic Somalis. It is located in the eastern part of Ethiopia, bordering Republic of Somalia to the east, Djibouti to the northeast, Oromia region to the southwest, Afar to the west, Dire Dawa to the north and Kenya to the south.

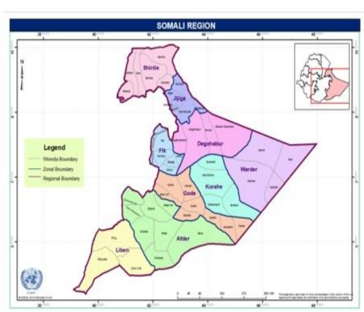
Based on the 2007(EC) Census conducted by the Central Statistical Agency of Ethiopia (CSA), the Somali Region has a total population of 7,445,219, consisting of 3,472,490 men and 3,972,729 women; urban inhabitants number 1,489,044 or 20% of the population, a further 5,956,175 or 80% are pastoralists and farmers. With an estimated area of 327,068 square kilometers, this region has an estimated density of 20.9 people per square kilometer.

For the entire Somali region 1, 685,986 households were counted, which results in an average for the Region of 6.8 persons to a household, with urban households having on average 6 and rural households 6.5 people.

The Somali Region has a predominantly pastoralist economy, with livestock rearing being the main source of livelihood for the majority of the population. The region is known for its large herds of camels, goats, and sheep. However, the region also has more agricultural activities, focused on subsistence farming mainly along the riverine areas where crops like maize, sorghum, and vegetables are grown. Trade and business activities within the region and cross-border trade with Somalia, is an important sources of tax revenue collection in the region.

Historically, the Somali Region has experienced conflicts and tensions, particularly related to issues of identity, resource allocation, and political representation. There have been longstanding grievances and occasional clashes between different ethnic groups, for instance between the Somali and Oromo communities. Somali and Afar people. These conflicts have sometimes resulted in displacement and humanitarian challenges such as *Qolaji* IDP camps near Babile district.

The Somali Region administrative structure is further divided into 11 administrative zones, 95 districts, 6 council towns and 1,224 *kebeles (villages)*. Jijiga is located in the western part of the region, serves as the capital city and administrative center. Somali language is widely spoken in the region and Amharic as national and working language for government employees, cultural traditions, customs, and practices are prevalent among the population, including the nomadic lifestyle of many communities.



Source: UN Office for the Coordination of Humanitarian Affairs

The main tax revenue collection sources of the region include agricultural productivity, livestock, business activities, Hotels & services and other government administrative structures. However, challenges such as limited infrastructure, lack of trained manpower and community awareness creation shortage in remote areas can impact the proper collection of tax revenue in the region. Since 2019 the regional administration has made remarkable improvements regarding infrastructure development including road networks mainly jigjiga capital city of the region and Gode zone next capital city of the region, while Revenue Bureau has conducted potential revenue assessment in the region in the first time with collaboration of Ethiopian Economic Association (EEA) Feb, 2024.

Despite the region has its own administrative government, it experienced various political dynamics, yet access to basic amenities such as clean water, electricity, internet connection and adequate sanitation facilities are still limited in many areas within the Somali region, not only that, but there are also a very high government leadership turnover that may negatively affects the development process of the trigon.

3.2 Research Design and Approach

A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. The plan is the complete scheme or programmer of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data (Kerlinger, 1986).

The research design provides a general plan how the research objectives will be achieved and the process for collecting, analyzing, and interpreting the data (Saunders, Lewis, & Thornhill, 2007).

The aim of this study is to examine the impact of tax revenue on economic development in Somali region of Ethiopia. The research is a causal design based on an in-depth analysis of the relationship between tax revenue and economic development in Somali Region from 2015-2024..

The analysis of the data for this study will be based on the tax revenue data collected from livestock and livestock production, agricultural productivity and other administrative government structure including government employees, district and zones collected tax revenues.

3.3 Data collection methods

Common qualitative data collection techniques are included

Interviews: Conducting semi-structured or unstructured interviews to gather in-depth information from participants

Focus group discussion (FGD) : Facilitating group discussions with a small number of participants to explore specific topics or issues.

Document Analysis: Examining documents, texts, artifacts or other materials to extract qualitative data such as content analysis of texts or archival research. *Journals:* Participants maintain written or digital records of their thoughts, experiences, and activities over time.

However, this study uses a mixed data collection method approach combining qualitative interviews, focus group discussion and quantitative survey. The qualitative interviews and focus group discussions are believed to provide deeper insights into the subjective experiences and perceptions of the impact of tax revenue on economic development.

Whereas, the quantitative survey allows the researcher to collect data on the tax revenue pattern and economic development indicators (from agriculture, livestock and government administration structure tax) of 11 zones, 95 districts, 6 city councils and 1,224 *kebeles (village)*. which consists Somali region of Ethiopia. This mixed approach will offer a comprehensive understanding of the phenomenon.

3.3.1 Questionnaire

Qualitative research involves collecting data through open-ended questions to facilitate detailed responses. Participants' answers should be allowed to evolve naturally, rather than being limited to predefined response options. Additionally, qualitative research often involves conducting interviews or focus groups discussions that may enable us the follow-up questions and deeper exploration of participants' perspectives.

This questionnaire where shared with a number of government employees from Somali Region Revenue Bureau, district and zonal revenue offices, respective stake holders, business people and civil society. As shown the type of the responses expected was open ended and the researcher was taking the note of the responses. The aggregate response ideas of each question will be presented on next analysis chapter. Questionnaires with open-ended questions used for this research to explore the impact of tax revenue on economic development in Somali Region of Ethiopia are summarized below table:

S/N	Table 3.1 Questionnaires with open-ended questions
1	Please describe your understanding of the relationship between tax revenue and economic development?
2	In your opinion, what are the key ways in which tax revenue contributes to economic development?
3	How do you personally observed or experienced the impact of tax revenue on economic development in your local area?
4	Could you provide specific examples or instances where tax revenue has been used effectively to promote economic development?
5	Tell us some challenges or limitations you have observed regarding the utilization of tax revenue for economic development purposes?
6	How would you prioritize the allocation of tax revenue to maximize its impact on economic development? Please explain your reasoning.
7	In your view, are there any specific sectors or areas that should receive more attention or funding from tax revenue to drive economic development? Why?
8	What are some potential barriers or obstacles that hinder the effective utilization of tax revenue for economic development?
9	What role do you believe government policies and regulations play in ensuring that tax revenue is effectively utilized for economic development?
10	Based on your experiences or observations, what recommendations would you provide to enhance the impact of tax revenue on economic development in Somali Region of Ethiopia?

3.3.2 Conducting interviews

The researcher prepared a semi-structured interview guide with open-ended questions related to tax policies, economic development, job creation and their interaction within the context of Somali region. The interview will focus on key stakeholders individually to gather their perspectives and experiences. The researcher has been using mobile recording and note taking when conducting the interviews with participants' consent to ensure the accurate data remained captured.

The research questions aimed to explore the perspectives, experiences, and opinions of various stakeholders involved in the tax and economic development landscape of the Somali region, to provide a basis for in-depth qualitative data collection and analysis, below are stated the interview questions asked for the respondents. .

S/N	Table 3.2 Semi-structured Interview Questions
1	How do tax payers in the Somali region perceive the current tax policies and their effect on economic development?
2	What are the experiences and challenges faced by tax payer’s in complying with tax regulations in the Somali region?
3	How do revenue authority officials and other government leaders in the Somali region perceive the relationship between tax revenue collection and economic development?
4	What are the opinions and attitudes of community members in the Somali region regarding the impact of taxes on local economic growth?
5	How do tax incentives or exemptions provided by the revenue authority influence investment and economic development in the Somali region?
6	What are the perceived effects of tax revenue collection and employment creation on the overall economic development of the Somali region?
7	How do different sectors, such as livestock, agriculture, manufacturing, and services, perceive the impact of tax policies on their growth and development in the Somali region?

8	What are the potential barriers or facilitators for businesses to invest and expand in the Somali region, considering the existing tax environment?
9	How do tax revenues collected in the Somali region contribute to local infrastructure development and public service provision?
10	What are the recommendations and suggestions you may provide as a key stakeholders in the Somali region for improving the tax system and promoting economic development?

3.3.3 Focus groups discussion (FGD):

The researcher Selects group of individuals from different stakeholders such as: (government employees, local business and community tax payers) who can provide diverse perspectives on the impact of taxes on economic development. Facilitate discussions around key themes and record with smart mobile the session's outcomes for later analysis. Selected groups are included Expertise from regional revenue bureau, business people from different sectors and community tax payers. During the focus groups discussion, some participants may dominate the discussion, while others may remain quiet. Thus, the researcher should facilitate the discussion, ensuring that all participants have an opportunity to share their perspectives while maintaining a respectful and inclusive atmosphere.

3.3.4 Document review

The researcher emphasized to focus finding of the latest data regarding about the topic with the support of the document review. Document analysis; collect relevant documents such as government reports, policy documents, tax regulations, and economic development plans. Analyze these documents to gain insights into the official perspective on tax and economic development in the Somali region.

The most recent information from approved papers, economic journals and other reports will be used to examine the impact of tax revenue on economic development in Somali region of Ethiopia. The use of different books, thesis, reports, laws, proclamations, office records, manual guides, memos, and other documents in connection with the topic were also properly referred.

The tax revenue collection data gathered from the surveys and internets were also incorporated in addition to the document reviews information.

3.3.5 Observations.

Finding the appropriate and updated information needed for this research, the researcher relied on firsthand (realistic) observation. The necessary firsthand observations were photographed and recorded in a field notebook during the research data collection so as to be used accordingly.

By using a triangulation of conflicting and/or divergent answers from questionnaire and interview data, the researcher expects to gain a deeper knowledge of genuine transactions and relationships between tax revenue and economic development in the study area.

3.3.6 Challenges for Interview and Focus groups discussion (FGD).

When employing qualitative interviews and focus groups discussions some of the key challenges and reflections predicted by the researcher include;

Recruitment of data collectors: Finding and recruiting appropriate data collectors who have the relevant knowledge and experiences related to the research topic was a big challenge. To find accurate person it may require searching out from different government institutions, NGO's, districts or working closely with revenue bureau that may facilitate access to potential participants.

*Participant Availability and Scheduling***:** Coordinating schedules and ensuring participant availability can be difficult, especially when dealing with busy stakeholders or individuals with limited time. Flexibility and clear communication are considered to be important to accommodate participants' schedules.

Establishing Relationship and Trust: Building relationship with data collectors is considered to be a crucial for creating a comfortable and trusting environment. Some participants as normally may initially feel uncertain, therefore, the researchers need to create a reliable relationship, by explaining the purpose of the study, and assuring participants to retain confidential.

Balancing Power of dynamics: During in interviews or focus groups, power dynamics between the researcher and participants can influence the data collection process. Researchers should struggle to create an inclusive and supportive environment that encourages participants to express their perspectives freely without feeling quieted.

Interviewer Bias and Influence: Interviewers may unintentionally introduce bias or influence participants' responses through their tone, body language, or outlining their needs. Researchers need to be aware of their own biases and aim for neutrality and open-mindedness during data collection to minimize bias.

Managing group dynamics; some participants may dominate the discussion, while others may remain quiet. To make the discussion very smooth, the researcher should facilitate and ensure that all participants have the opportunity to share their perspectives while maintaining a respectful and inclusive atmosphere.

Interviewee recall and memory bias: Participants' ability to recall specific details or experiences accurately may vary. Memory bias can affect the quality and accuracy of the data collected. Researchers should be mindful of this and prompt participants to provide specific examples or details where possible.

Analysis and Interpretation: Analyzing qualitative data can be time-consuming and complex. Researcher need to be very carefully when analyzing and interpreting the data, ensuring that they capture the richness and depth of participants' responses while considering the broader context of the research.

Ethical Considerations: Researchers must adhere to ethical guidelines throughout the research process; including obtaining informed consent, maintaining participant confidentiality, and ensuring the well-being and safety of participants. Ethical challenges may arise, and researchers should be prepared to address them appropriately.

Therefore, by being aware of these challenges and taking proactive steps to address them, this research allows enhancing the quality and validity of its qualitative research findings.

3.4. Indicators and measurements

Economic development indicators in Somali Region of Ethiopia that may positively contribute through tax revenue generation are included; livestock and agriculture sector, trade and business sector and different types of taxation sources as follows;

Taxation on Agricultural Products: The government can impose taxes on agricultural products, such as crops and livestock, at various stages of production, processing, and sale. This can include taxes on the sale of crops, livestock, and their by-products, as well as taxes on agro-processing industries. The revenue generated from these taxes can be utilized for infrastructure development, healthcare, education, and other public services, leading reliable growth to overall economic development in the region.

Value-Added Tax (VAT): Implementing a value-added tax system can be an effective way to generate tax revenue from the agricultural and livestock sectors. VAT can be levied on the value added at each stage of the supply chain, including production, processing, and distribution. By collecting VAT from farmers, agro-processing industries, and traders, the government can generate revenue that can be re-invested in the region's agricultural and livestock development.

Income Tax: Income tax can be levied on individuals payments working for Go’s or NGO’s, companies or businesses involved in the agriculture and livestock sectors, such as farmers, agro-processing companies, and livestock traders. By taxing the income generated from these activities, the government can generate revenue that can be utilized for economic development purposes.

Property Tax: Property taxes can be imposed on agricultural land and other assets owned by individuals or businesses in the sector. By taxing the value of these properties, the government can generate revenue that can be used for local infrastructure development, improving agricultural extension services, and other initiatives aimed at promoting economic growth.

Import and Export Taxes: The Somali region can generate tax revenue by imposing import and export taxes on agricultural and livestock products. This can be particularly relevant for cross-border trade with neighboring countries. By collecting taxes on imports and exports, the government can generate revenue that can be invested in the development of agriculture-related infrastructure, such as transport networks and border facilities, which can further boost trade and economic growth. It's important to consider a balance when implementing taxation policies to ensure they do not create unnecessary burden on the agricultural and livestock sectors, especially for small-scale farmers and pastoralists. Moreover, the revenue generated from taxes should be re-invested strategically in the sector itself, such as improving infrastructure, providing training and extension services, and promoting value addition, to foster sustainable economic development in the Somali region

3.5 Statistical techniques employed.

When working with qualitative data, statistical techniques are not typically used in the same manner as with quantitative data. However, qualitative data can still provide valuable insights into the impact of tax revenue on economic development in the Somali region of Ethiopia. Qualitative research methods used in this research are included:

Case Studies: Conducting in-depth case studies in the region can help understand the specific contexts and mechanisms through which tax revenue affects economic development in the Somali region. By examining individual cases, including interviews with relevant stakeholders, local communities, and government officials, a rich description of the impact can be obtained. Case studies can provide detailed insights into the dynamics and distinctions of tax revenue and economic development.

Interviews and Focus Groups: Conducting interviews and focus groups with key informants, such as government officials, tax administrators, business owners, farmers, and community leaders, can provide qualitative data on the perceptions, experiences, and narratives related to tax revenue and its impact on economic development. These qualitative insights can help identify key themes, challenges, and opportunities associated with tax revenue in the region.

Document Analysis: Analyzing policy documents, reports, and other relevant materials can provide insights into the strategies, goals, and outcomes of tax revenue initiatives in the Somali region. This analysis may investigate the consequences of tax policies, the allocation of tax revenue, and the overall impact on economic development.

Participatory Approaches: Engaging local communities and stakeholders through participatory approaches, such as participatory rural appraisal (PRA) or community workshops can provide qualitative insights into the perceptions and experiences of tax revenue and economic development. These approaches can facilitate the co-creation of knowledge and ensure that the voices and perspectives of the affected communities are heard.

Content Analysis: By systematically analyzing qualitative data from various sources, such as interviews, focus groups, or documents, content analysis can identify recurring themes, patterns, and relationships related to tax revenue and economic development. This method can help identify common challenges, success stories, and factors that mediate the impact of tax revenue on economic development.

Comparative Analysis: Comparing the experiences and outcomes of tax revenue and economic development across different zones or districts within the Somali region can provide qualitative insights. Similarly, by examining variations in tax policies, local contexts, and development outcomes, comparative analysis can help identify factors that contribute to successful or unsuccessful outcomes.

The researcher believes that, the qualitative research methods allows for a deeper understanding of the impact of tax revenue on economic development in the Somali region. It provides a platform to capture the perspectives, experiences, and contextual factors that quantitative data alone may not reveal. Merging qualitative and quantitative approaches can offer a comprehensive understanding of the complex dynamics of the impact of tax revenue on economic development.

3.6 Ethical consideration and Research limitations

By carrying out this research on the impact of tax revenue on economic development in the Somali region, the researcher who is a senior lecturer at jigjiga university currently, required a support letter from both Jigjiga University of Ethiopia and the Selineus University of science & Literature in Italy, regarding a research authorizing and permitting the researcher to obtain the necessary primary data and research the chosen topic.

Researcher developed relevant questionnaires and interviews for the respondents to obtain appropriate data for the study taking into account the ethical consideration of the respondents.

3.6.1 Ethical Considerations:

Privacy and Confidentiality: during the data collection period of this dissertation, personal privacy and confidentiality was taken into account, especially when dealing with sensitive revenue information. Protecting the privacy and secrecy of respondents and institutions.

Informed Consent: Obtaining informed consent from participants is essential to ensure that they understand the purpose of the study, the potential risks and benefits, and their rights as participants. Even though, in some cases, consent was a challenging to obtain due to cultural or trusts among the people.

Bias and Conflict of Interest: Researcher was aware of his own biases and potential conflicts of interest that may influence the design, execution, or interpretation of the study. Transparency and disclosure of any associations or funding sources were vital.

Fair Representation: Researcher has been struggling for fair representation and avoids generalizations of specific area or districts within the region. Ensure that the research accurately reflects the districts livelihood diversity and complexity of the regions livelihood consisting pastoralists and agro pastoralists.

3.6.2 Anticipated Limitations:

Data Availability and Reliability: Access to reliable and comprehensive data on tax revenue and economic development in the Somali region was a big challenge. This can hinder the accuracy and generalizability of the findings. The researcher had carefully considered the quality and representativeness of the available data.

Causality and Correlation: Establishing a causal relationship between tax revenue and economic development was a challenging due to various confusing factors such as political stability, infrastructure, governance, and external influences, which can impact economic development simultaneously, making it difficult to isolate the specific impact of tax revenue alone.

Contextual Factors: The Somali region is characterized by complex socio-political dynamics, regional administration leader’s inconsistencies, and historical factors that influence the relationship between tax revenue and economic development. The researcher has considered these contextual factors to avoid generalization or misunderstanding of the dynamics at tragedy.

Generalizability: Findings of this specific topic from Somali region may not be readily generalizable to other regions of the Ethiopian country. This is due to the unique socio-economic context, cultural factors, and governance structures in the Somali region, which in turn limit the applicability of the research findings to broader contexts.

Long-term Effects: Studying the impact of tax revenue on economic development in the region requires considering long-term effects. Because economic development is a complex and multidimensional process that may take years or decades to manifest fully. Short-term studies may not capture the full extent of the relationship between tax revenue and economic development.

Addressing those above mentioned ethical considerations and research limitations, the researcher should study with careful planning, transparency, and awareness of the broader context. Hence, by acknowledging these challenges, the researcher can produce demanding and ethically sound research that may contribute to the understanding of the impact of tax revenue on economic development in the Somali region.

CHAPTER FOUR

4. DISCUSION AND RESULTS

This chapter presents the results of the study and discusses the major findings of the study in line with the knowledge in the literature and the realities in Ethiopia. The chapter is presented in sub-sections. The tax revenue system , types of tax revenue, tax revenue trends , impact of tax revenue on key sectors in the region, results of questioners & interviews, challenges for effective utilization of tax revenue for economic development and strategies the government can tackle challenges of taxation in Somali region.

4.1 Tax revenue System in the Somali Region

Like other regions in the country, the Somali Region has adopted the tax revenue system established by the Federal Government of Ethiopia. However, it appears that the Somali region of Ethiopia is implementing the traditional method of collecting tax revenue which cause for the low revenue collection in Somali Region as compared to other regions in Ethiopia.

In the year of 2024, six sub city administrations in Somali region and the capital city of the region jigjiga were introduced a modern taxation system. This system is anticipated to ease the process of tax revenue payments, whereby individuals or companies can pay their obligation taxes via the mobile or internet, and are not obliged to go to any revenue bureaus or offices. This system in turn helps in restriction or reducing the instances of corruption, illegal bargaining, and other corrupt practices associated with the revenue collection and utilization.

As per the data revealed by the Somali Region Revenue Bureau for the month of July, 2024, Performance revenue income of the year 2024 is 13,521,438,639.48 ETB while the plan was 16 billion, this clearly indicates and depicts an increase of over 3.5 billion from the last year 2023 which had revenue collections of 9,812,231,364.90 ETB which is lower than this current year. The last years' growth in revenue over the two years period was 44%, while the looking forward collection in the subsequent two years 2025/26 is expected to be 48%, so that most of the revenue within the region can be met by the bureau , in addition to that, 11 local business men and women who were identified as the leading taxes payers in the region were also recognized and awarded this year 2024. The planned tax revenue collection for the year 2024/25 is about 17,600,000,000.00 ETB.

The researcher believes that, proper revenue collection and utilization may positively contribute to economic development in Somali region. Even though, proper tax revenue collection does not at all mean the levy of taxation on the civil society in general especially the less privileged people that cannot withstand. Public awareness on the importance of taxation and influence of respected leaders of society are crucial so as to pay citizens their taxes at the right time to the right destination without viewing it as a burden.

Challenges of tax revenue system effectiveness in generating revenue.

- The complexity of the tax system, which can result in confusion and non-compliance among taxpayers. This complexity is partly due to the multiple taxes that are levied at different levels of government (Federal, Regional, and Local levels).

- The lack of clarity in tax laws and regulations can make it difficult for taxpayers to understand their obligations and for tax authorities to enforce compliance.
- The burden of taxation which falls disproportionately on small businesses and individuals, rather than large corporations.
- The absence of a well-established tax administration
- Lack of awareness and trust between tax collectors & tax payers
- Cross border illegal trade and business that do not pay any taxation

The researcher perceived that, the tax systems in the Somali Region are provoked by various difficulties that limit their ability to raise expected revenues and enhance development. Some of these difficulties faced by the tax system idealized constraints will have a long-term solution through comprehensive modernized taxation policy measures including; tax policy reform including removal of redundant elements associated factors together with enhancing tax administrative capacity; focus on the unorganized sectors.

4.2 Types of taxes and their contribution to tax revenue

The system of taxation in Ethiopia comprises primarily two broad classes of taxes which are direct taxes and indirect taxes.

A: Direct Taxes: Are taxes imposed upon the income or the wealth of an individual or a corporation. These taxes are classified as progressive, which implies that the higher the amount of taxable income, the tax rate gets higher.

This is one kind of tax which an individual or a corporation pays straight into the government.

According to the Ethiopian taxation system, the proclamation provides for the taxation of income in accordance with the following schedules:

- Schedule A, income from employment;
- Schedule B, income from rental of buildings;
- Schedule C, income from business;
- Schedule D, other income;
- Schedule E, exempt income.

- **Schedule A, Income from Employment** (Employment Income Tax)

Employment Income Tax (EIT): is a tax levied each calendar month on the employment income that tax-resident employees receive during that month. This differs from the typical approach used in some other countries in the world, which tend to levy income tax based on annual employee earnings. This means. Ethiopian employees whose incomes vary on a monthly basis may face a higher average tax rate than they would under annual schedule taxation.

Taxable employment in the Ethiopian country even incurs a tax ranging from (10%-35%) of their Gross salary, meaning no employee gets his/her salary in total but instead loses around or above 10 up to 35 percent in form of taxes to the authority.

The Ethiopian country uses a scheduler rather than having a comprehensive personal income tax system. This signifies that sources of individual incomes in taxes are done independently and subjected to their rates without being combined and taxed at one schedule.

According to Ethiopian government, all domestic direct taxation is governed by Proclamation No. 979/2016 and Council of Ministers Regulation No. 410/2017 (introduced in 2016 and 2017).

Table 4.1 Employee Income Tax (EIT)

Employment income (per month, ETB)	Applicable rate.	Deduction	EIT-Computation
0–600	0%	0	
601–1,650	10%	60.00	I*10% - 60
1,651–3,200	15%	142.50	I*15% - 142.50
3,201–5,250	20%	302.50	I*20% - 302.50
5,251–7,800	25%	565.00	I*25% - 565
7,801–10,900	30%	955.00	I*30% -955
Over 10,900	35%	1,500.00	I*35% -1,500

Source: Federal Income Tax Proclamation (No. 979/2016)

Taxation affects also public servants such as those working as janitors (such as caretakers and gate keepers) are paid at grades (i–v); while minor skilled personnel without a college diploma (such as drivers) typically start at grade VI and a salary of ETB 2,799 per month. The marginal rate at this salary is 15% and the average tax rate is 10%. Accounting for pension contributions too increases the average tax rate to 17%. Similarly, junior staff with a college diploma and above six years' experience could be at salary grade x earning ETB 5,358, which has a marginal tax rate of 25% and an average tax rate of 14%.

Employment income is defined to include an individual's salary, wages, allowances, bonuses, commission, gratuities, and any other remuneration received by an employee in respect of past, current and future employment. Fringe benefits are also treated as employment income.

However, there are no deductible allowances for any expenditure incurred in deriving employment income; the following payments are excluded from Employee Income Tax:

- An amount paid by the employer to cover actual cost of medical expenses of employees;
- Transportation allowances granted under a contract employment;
- Hardship allowances; Contribution of an employer to pension, provident or other retirement fund for the benefit of an employee (provided that the monthly contribution which does not exceed 15% of the monthly employment income of the employee).

The Income tax revenue collection data from 11 zones and 6 city councils for the years 2020 up to 2022 in Somali region ranges 1,735.20 up to 2,088.76 million ETB which is equivalent the percentage change of 20.4%. This type of tax collection is highly implemented in Somali Region relative to other types and almost all government and non-government employees are deducted by their respective employers, below table shows revenue collection in Somali Region of Ethiopia in 2020/22..

Table 3.2: Revenue collection of zones of SRS (in million birr)

Zones	2020/21	2021/22	Percentage change	Regional share in 2021/22 (%)
Fafen	148.58	183.90	23.8	8.8
Siti	159.88	181.31	13.4	8.7
Liban	143.47	153.56	7.0	7.4
Afdher	96.09	135.40	40.9	6.5
Jarer	97.66	123.97	26.9	5.9
Shabelle	81.94	113.01	37.9	5.4
Korahey	78.23	82.98	6.1	4.0
Errer	62.70	77.92	24.3	3.7
Dawa	50.57	74.08	46.5	3.6
Dollo	62.01	63.13	1.8	3.0
Negob	44.92	53.83	19.8	2.6
City Councils	709.15	845.67	19.3	40.5
Total	1735.20	2088.76	20.4	

Source: Somali Region Planning & Economic Development Bureau, 2023

➢ **<u>Schedule B</u>, Income from rental of buildings**

Rental income tax (RIT), is a tax which falls under regional states' tax authority, is levied on a person (or a body/entity) renting out a building. The taxable rental income is the gross amount of rental income minus a range of allowable expenses necessarily incurred such as: expenses related to repairs and maintenance; depreciation of the building; furniture and equipment costs; interest expenses; and insurance premiums (RIT= [GRI-(R&M+D+R+I)]

If a person owns a piece of land, or a building, or a residence, or a business premises which he/she rents out to another, he/she forfeits within 10 percent to 35 percent of his earnings from rent to the Regional Revenue Bureau. Rental income tax is levied on an annual rather than monthly basis. For individual and incorporated business landlords, the tax rates and bands are the annual equivalent of the monthly ones used in employment income tax, as shown below Table.

Table 3.3: Rental income tax rates applicable to individuals

Rental income (per year, ETB)	Applicable rate.	Deduction	RIT Computation
0– 7,200	0%	0	
7,201–19,800	10%	720	RIT=RI*10%-720
19,801–38,400	15%	1,710	RIT= RI*15%-1,720
38,401–63,000	20%	3,630	RIT=RI*20%-3,630
63,001–93,600	25%	6,780	RIT= RI*25%- 6,780
93,601–130,800	30%	11,460	RIT=RI*30%- 11,460
Over 130,800	35%	18,000	RIT=RI*35%-18,000

Source: Federal Income Tax Proclamation (No. 979/2016)

The gross amount of income derived by the taxpayer from the rental of a building in a tax year is defined to include the following:

- All income derived by the taxpayer during the fiscal year under the lease agreement, including any lease premium or similar amount;
- All payments made by the lessee in accordance with the lease agreement;

- The amount of any bond, security or similar amount that the taxpayer is entitled to retain as the result of damage to the building for the fiscal year.

If the taxpayer leases a furnished building, the gross amount of income derived by the taxpayer from the lease of the building includes any amount attributable to the lease of the furniture or the equipment. As stated in the Council of Ministers Federal Income Tax Regulation (No. 410/2017), income derived from the lease of a business, including goods, equipment and buildings that are part of the normal operation of a business, is taxable under business income tax law, not under rental income tax law.

If the rental income tax for a fiscal year of a taxpayer who keeps records is exceeded by the deductions allowed to the taxpayer as per the income tax proclamation, then the amount of the excess is treated as a rental income loss for the year and the taxpayer is allowed to carry forward the rental income loss into the next tax year.

- **Schedule C, Income from business;**

Business Profit Tax: is the tax eligible for payment from Businesses that exist in Ethiopia. That means that when a business makes a profit, it does not keep all of it. If the business is incorporated in Ethiopia it pays 30% of its profits, and if the business is not incorporated it pays between 10% to 35%. The taxable income of a taxpayer for a tax year is the total business income of the taxpayer for the year reduced by the total deductions allowed to the taxpayer for the year. Taxable Income= [Business income - (deductions + exemptions)]

The taxable income of a taxpayer for a tax year is determined in accordance with the profit and loss, or income statement, of the taxpayer for the year prepared in accordance with the financial reporting standards, subject to any modifications made in the Proclamation, regulations made by the Council of Ministers, and directives issued by the Ministry. Thus the reader should consult these laws to identify the constituents of business income, deductions and exemptions in order to accurately calculate business income tax. It is classifies businesses into three categories – A, B and C.– according to whether the business incorporated or not,

Table 3.4: Categories of firms in Ethiopia, threshold and reporting requirements

Category Level	Threshold for unincorporated business	Reporting Requirements
Category A (All corporations belong to this category regardless of their turnover)	Over ETB 1 Million (This threshold applies for unincorporated business or individuals	Businesses are required to submit their balance sheets (a financial statement), profit and loss statement showing their gross profit and the manner it is computed. general and administrative expenses, depreciations and provisions and reserves
Category B	Between ETB (500,000 -- I,000,000)	Business are required to submit their profit and loss statement, that summarizes the revenue and expenses of the business over the reporting periods, but no balance sheet(financial statement)is required.
Category C	Bellow ETB 500,000	Business are not required to keep book of accounts, taxpayers must pay their their tax liabilities within one month of the end of the financial year(between july7 and August 6)

Source: Federal income tax proclamation No.979/2016. Mascagni and Molla 2018

Withholding Tax

Generally, payments for supply of goods (worth ETB 10,000 or more) and provision of services (worth ETB 3,000 or more) to a resident person are subject to WHT at the rate of 2%.

The 2% WHT applies if the supplier provides a valid tax identification number (TIN) and a business license. If the TIN and the license are not provided at the time of making the payment, the payer is required to subject the payment to a 30% WHT rate.

Withholding tax obligations applies to the following payments: -

- Withholding of Tax from Employment Income.
- Withholding of Tax from Payments to Non-residents.
- Withholding of Tax from Dividends, Undistributed Profits, Repatriated Profit, Interest, and Royalties.
- Withholding of Tax from Income from Games of Chance.
- Self-withholding.

- **<u>Schedule D</u>, Other income Taxes**

This category includes Income from royalties. This means that if a person writes a book, produces a song, or does a film, and this intellectual property goes on sale in Ethiopia the owner of the said intellectual property pays 5% of the income gained through the proceeds of his work to the Ethiopian government.

Casual rental of property attracts 15% of income. This category includes movable assets, vehicle, trucks, cooling vans, and so on.

Transfer of Property: Sale or Gift. If a person acquires a new commercial building such as a factory or an office he pays 15% of its value, while if a person receives shares in a company he pays 30% of its value to the government. If a person inherits a building or land, he is not required to make any payments.

- **<u>Schedule E</u>, Exempt income Tax**

The Ethiopian government makes exceptions to people whose personal or economic circumstances put them at a disadvantage. According to Article 13 of the Income Tax Proclamation, such circumstances include the following.

- *Medical treatment*: Those who suffer from recurring illnesses and therefore may not be able to work as much as they otherwise would, or who spend a lot of money treating medical illnesses or conditions are given special consideration during tax.
- *Transportation allowances*. Those who have to travel long distances to and from their places of employment are given special consideration during tax.
- *Hardship allowances*. Those who may be infirm or injured are given special consideration in tax issues. They may even receive payments from the government.
- *Secretaries' allowances*. This is an extra allowance paid to those who are employed as domestic workers. Their employers are compensated for this.
- *Employer and the employee retirement savings fund*. Employers are encouraged to set up a savings fund for their employees so as to help them have a source of income after retirement. The Ethiopian government makes special consideration for this scheme as far as savings do not exceed 15 % of employees' monthly salary.

B: Indirect Taxes : Indirect Taxes are those which are not paid directly by individuals to the Ethiopian government, but which are deducted through third parties, during other financial and commercial transactions. The main types of indirect taxes are included; VAT, customs duty, excise and turn over taxes.

Value Added Tax (VAT): A person who carries out a taxable activity is required to file an application for VAT registration if the total value of taxable transactions, at the end of any 12 calendar months period, exceeds ETB 1 million or there are reasonable grounds to believe that the taxable transactions of the coming 12 months exceed the threshold. VAT; in Ethiopian country context is 15% of the value of every taxable transaction by a registered person, and all imports of goods bought, and services rendered, except VAT exempted items in Ethiopia such as: (Medical supplies, Food items, Educational supplies. Some products are taxable but are charged at zero percent). These are export of goods or services, the rendering of services directly related to international transportation of goods or persons, and also the supply of lubricants as well as consumable products.

Customs duty: This is basically the levy imposed on businesses whose operations involve exporting Ethiopian products. Duty means a charge levied and collected on any imported and exported goods in accordance with the Customs Tariff Regulations and the International Convention on the Harmonized Commodity Description and Coding System:

• Regular customs tariff ranges from 10%–35% depending on nature of goods imported.

• Special customs tariff applicable to goods produced in and imported from the Common

Market for Eastern and Southern Africa (COMESA) member countries is 10% less; i.e.

(4.5% to 31.5 %.).

• Other taxes like VAT and excise tax are levied on imports at the same rate as domestic transactions.

Customs Duty Exemptions: The government may exempt specific goods or materials from customs duties or provide duty-free import privileges for certain industries or investment projects. This incentive can reduce costs for businesses and facilitate trade and investment

Excise Duty: Excise duty is an additional tax, after VAT imposed on goods that are considered luxuries and basic goods that are inelastic demand such as television sets, cars, carpets, toys, and perfumes. Hazardous to health and cause social problems such as alcohol, tobacco, such taxes vary from 10% to 100%.

Time of payment: Excise tax on excisable goods shall be payable:

• When imported at the time of clearing the goods from the customs area;

• When produced locally, not later than 30 days from the date of production

***Turn over Taxes* (ToT):** This is an additional tax to business tax. It appears that the purpose is to bridge the disparity between the rich and poor. Domestic business transactions under 500,000 ETB are required to pay about 2% of their earnings while others may pay about 10%.

Turnover tax is an equalization tax imposed on persons not registered for value-added tax to allow them to fulfill their obligations and enhance fairness in commercial relations and complete the coverage of the tax system, among other objectives. This tax is, therefore, applicable to small taxpayers who do not meet the VAT registration threshold of turnover of ETB 1,000,000 per year.

The turnover tax rate shall be:• 2% on goods sold locally.• For services rendered locally:• 2% on contractors, grain mills, tractors and combine harvesters.• 10% on others.

.***Sur tax***: It is an additional 10% tax that is applicable on imported goods except for fertilizers, petroleum and lubricants, motor vehicles for freight, passengers and special purpose motor vehicles, aircraft, spacecraft, and parts thereof, and capital (investment) goods. The Ministry of Finance is authorized to increase or decrease the list of goods exempt from surtax.

Pension contribution : It is applicable to private organizations' employees who are salaried persons employed in a private organization for not less than 45 days for a definite or indefinite period or a piece of work, including managerial employees. However, it does not include employees engaged in cotton collection, sugar cane cutting, and such other similar works regularly repeated in the year. The term "private organization" means an organization established to engage in commerce, industry, agriculture, construction, social service or in any other lawful activity and that has salaried employees and includes charities and associations.

The contributions payable to the Private Organizations Pension Fund shall, based on the

Employee's salary, be: By the employer, 11%; and by the employee, 7%.

Withholding Tax: All bodies and specified sole proprietor businesses are required to deduct withholding tax on domestic transactions at a rate of 2% of the value of the transaction and remit to the tax authority monthly. The threshold subject to withholding tax is ETB 3,000 for purchase of services and ETB 10,000 for purchase of goods. The withholding tax rate on suppliers that fail to provide a TIN and valid trade license is 30%. The amount of tax withheld is deductible from the tax payable by the supplier at the end of the year. The tax authority refunds excess withholding tax, paid over and above the tax payable for the year, to the supplier.

Who Are Applicable To Pay Tax In Ethiopia

Income tax is applicable to anyone who owns landed property, has an apartment rented out, has a business, or works in Ethiopia, regardless of what his country of origin is. According to Ethiopian Law, if a person lives in Ethiopia for 183 days out of a calendar year of 365 days, he is eligible to pay tax. Income Tax Proclamation in Article 5.2 states:

- A person who has a permanent residence in Ethiopia.
- A person who has a place in Ethiopia that he frequently resides in.
- A person who is an Ethiopian citizen but who lives abroad for the purpose of working in a Councilors office, or a diplomatic mission.
- A person who is resident in Ethiopia for 183 days within a 12 months period is obligated to pay tax to the Ethiopian government.

Under Ethiopian law, all taxes are subject to appeal. That means if a person believes that he/she has been taxed unfairly he/she may call or write a complain letter to the tax office in order to seek solution of the problem or reimbursement if payment is made.

4.3: Tax revenue collection Trends in Somali Region (2015/16-2024/25 GC)

Certainly, the Somali Region of Ethiopia has had its own challenges combined with opportunities for tax revenues during the years 2015-2024 G.C. Below table shows Tax revenue trends from 2015/16 to 2024/25

Year	**Revenue Trends for Somali Region for the last 10 years**		
	Plan	**Performance**	**Comparison(increase or decrease)**
2015/16	1,570,000,000.00	1,902,157,346.91	33,215,734
2016/17	2,050,000,000.00	2,324,124,020.61	304,124,020.61
2017/18	3,000,000,000.00	2,617,490,255.58	(-382509744.42)
2018/19	3,100,000,000.00	2,466,341,387.47	(-633,658,612.53)
2019/20	3,800,000,000.00	3,218,515,457.86	(-581,484,542.14)
2020/21	4,200,000,000.00	5,656,874,947.00	1,456,874,947
2021/22	7,600,000,000.00	7,262,700,683.04	(-337,299,316.96)
2022/23	9,000,000,000.00	9,812,231,364.90	812,231,364.90
2023/24	16,000,000,000.00	13,521,438,639.48	(-2,478,561,360.52)
2024/25	17,600,000,000.00		

Source: Somali Region Revenue Bureau (Dec, 2024)

Analyzes about the revenue trends in Somali Region:

Initial Growth (2015/16 to 2016/17): The initial star shows a significant revenue growth from the 2015/16 to 2016/17 fiscal year, more than 300 million Birr beyond its planned figures.

Revenue Declines (2017/18-2019/20): In the three years (2017/8-2019/20), realization of revenue against planned figures revealed notable decreases with the sharpest drop being recorded in 2018/19 (-633 million Birr). This appears to indicate some challenges, such as economic downturns or unproductive strategies for tax collection.

Significant Recovery (2020/21): An incredible recovery from actual revenue, which was more than 1.4 billion Birr, exceeding that of planned revenue in 2020/21, is indicative of improvements in the economy in Somali region.

Fluctuation and Decline (2021/22-2023/24): After recovering in the year 2020/21, the actual revenues have fluctuated: decreased in 2021/22, and significantly fell in 2023/24. The large deficit of almost 2.5 billion Birr registered in 2023/24 against the plan raises some concerns regarding sustainability. Future Projections: The target revenue for the year 2024/25 is set at 17.6 billion Birr, which is aimed at target ambitious growth expectations. Thus, tracking performance against those estimates will be key in establishing feasibility.

In addition to the above analyzes, years between 2020 to 2024. The economy of the region has been affected by factors like economic conditions, government tax reforms, and social dynamics that have shaped tax revenue trends. Below are stated the analysis of main impacts of tax revenue trends in Somali region during the specified period.

During 2020-2021: Impact of COVID-19 and Economic Challenges were the main factors.

- *Disruption in the economy*: The COVID-19 pandemic was an advent that heavily affected economic resort in the Somali Region, with the detriment of reduced business activities and trade, eventually cascading into tax revenue.
- *Limited Tax Base*: The area is significantly confined by informal economic activities, which circumscribe the effect of tax collection efforts. Many businesses were uncooperative towards taxation in this period.
- The general information about economic condition in the region is considered sectors like ***Agriculture and Livestock***: The Somali Region has a predominantly agrarian economy, with agriculture and livestock being the primary sources of income for the population. The region is known for its pastoralist communities, who rely on livestock rearing for their livelihoods. According to 2023 data obtained from districts and city administration pastoral livestock development offices,
- Total Livestock population in the region is estimated at 48,389,370 heads out of which Camel constitute about 15.7%, , cattle 12.2%, Goats 40.8%, Sheep 28.2%,Poultry 1.1%, and Equines(Donkey, Horse, Mules and Poultry) 2%, (See details in table-7).
- The total area cultivated during spring and autumn seasons were 3,378,104 hectors with total production of 5,919,429 quintals by peasant farmers and agro-pastoralists in the region.
- Total crop production 2,430,925 quintals of yield were obtained from 372,250 hectors of land cultivated by irrigation scheme while 3,488,504 quintals of yield were obtained from 3,005,854 hectors of land cultivated by rain feed (see the details in table-6).

- ***Informal Economy***: Somali Region has a significant informal economy, which includes activities such as small-scale trade, petty commerce, and informal financial services. This sector plays a vital role in providing employment opportunities and income generation for many individuals.
- ***Trade and Cross-Border Activities***: Cross-border trade plays a crucial role in the economic dynamics of the Somali Region. Informal trade networks exist with neighboring countries like Somalia, Kenya, and Djibouti, facilitating the flow of goods, services, and remittances.
- ***Natural Resources***: The Somali Region is rich in natural resources, including oil, gas, minerals, and fisheries. However, the exploration and exploitation of these resources have been limited due to lack of infrastructure, security concerns and lack of knowhow.

During 2021-2022: were the time of Recovery Attempts and Policy Reforms

- *Gradual Recovery*: With the easing of restrictions, a slow but measured recovery has started in the Somali Region, evidenced by increased internal trade and economic activity, which has steadily increased tax revenues.
- *Tax Reforms of the Government*: Tax reforms were also committed to expanding the tax base by formalizing informal businesses and enhancing tax compliance. There were also capacity building training programs given to tax officials.
- *Revenue Growth*: All reports stated that revenue collection had increased by great measures from agriculture and livestock, which were seen to be critical to the economy of the region.
- *Development efforts to overcome Economic Condition*

➢ ***To implement infrastructure development projects,***

- Road Construction and Rehabilitation: The Ethiopian government has been investing in the construction and rehabilitation of roads in the Somali Region to improve connectivity and facilitate trade and transportation. Projects included the construction of new roads, upgrading existing roads, and improving road networks in urban and rural areas.
- Water Supply and Irrigation: Efforts have been made to enhance water supply infrastructure and irrigation systems in the region. Projects aimed at providing clean water access to jigjiga town has already started but till now yet completed, other water

projects in rural communities, constructing reservoirs, and improving irrigation schemes to support agricultural activities are ongoing.

- Energy Infrastructure: The expansion of energy infrastructure, particularly in the form of electrification, has been a focus in the Somali Region. Projects included the extension of electricity grids, the installation of power generation facilities, and rural electrification initiatives to improve access to electricity in remote districts are also going on.
- Education and Health Facilities: Investments have been made to improve education and health infrastructure in the Somali Region. This includes the construction and expansion of schools, colleges, and healthcare facilities to enhance access to quality education and healthcare services.
- Telecommunications and Connectivity: The improvement of telecommunications infrastructure and internet connectivity has been a priority in the region. Projects aimed at expanding mobile network coverage, increasing internet access, and improving communication services in remote and border area are going on to enhance connectivity and support economic development.

- International organizations and development partners also to be involved in supporting economic development and poverty reduction efforts in the region

During 2022-2023: Themes of Compliance and Infrastructure Development Carefully

- *Compliance Elevation*: All the above discussed measures from earlier through citizen engagement resulted in improved taxpayer education and compliance, resulting in revenue collection. The exercise also included encouraging communities to understand their tax responsibilities.
- *Investment in Infrastructures*: The revenues from taxes were directed to bigger infrastructure projects: that is into small roads and other public services, which generated more economic growth at that level, and improved the potential income in the future.
- *Growing Sectorial Contributions*: Taxes on agriculture and income from the livestock trade reflect more significantly the economic activities within the Somali Region.

During 2023-2024: Time for Strategic Initiatives and Future Outlook

- *Sustainability of Revenue Growth*: The tax revenue is likely to continue increasing in 2024, in light of ongoing efforts to reform tax systems under improved economic conditions.
- *Digital Tax Administration*: The establishment of digital tax systems creates expectations that they will improve the efficiency and transparency of tax collection, making compliance easy for the taxpayer.
- *Focus on Diversification*: The government hopes to diversify revenue sources by promoting investment in sectors such as livestock and agriculture, trade, manufacturing, and services to possibly increase total taxation revenue.

According to the data from ministry of Finance and economic cooperation in 2023, as shown below table, the total revenues have increasingly exhibited general upward trends, which began at 2,398.42 million Birr for the fiscal year 2016/17 and were estimated at 5,536.17 million Birr for the next, 2021/22. It displays a very significant increase over revenues generation capabilities for these years.

Tax revenue remained the first and foremost in total revenue collections, as its contribution grows steadily. Its expansion from 1,535.14 million Birr in 2016/17 to 3,319.58 million Birr in 2021/22 is not an exception. Both direct and indirect tax revenues contribute positively, with direct tax revenues getting even increased in a very promising manner that reflects the improved tax administration and compliance.

Municipality Revenues, this part is still very small compared to tax revenue, but it is growing and shows some potential for growth.

Revenue and Expenditure of Somali region (2016-2022) Values are in Million ETB

Revenue & Expenditure	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
1.Total Revenue	**2,398.42**	**2,767.43**	**2,704.03**	**2,949.3**	**5,536.7**	**7,088.3**
Tax revenue	1,535.14	1,999.91	1,470.07	1,832.961	2,444.18	3,091.45
o Direct tax	912.85	1,064.77	912.66	,161.53	1,540.73	2,017.89
o Indirect tax	622.29	95.17	557.41	671.43	903.45	1,073.56
Non-tax revenue	731.98	559.59	996.26	781.63	2,646.76	3,596.80
Municipality	131.3	207.9	237.7	334.7	445.8	400.00
2. Tot al Expenditure	**11,124.1**	**14,725.2**	**15,866.4**	**11,516.2**	**17,970.5**	**23,684.8**
o Recurrent ;	4,650.57	5,721.25	7,312.08	5,889.15	10,455.88	13,559.29
o Capital	6,473.56	9,003.90	8,554.34	5,616.99	7,514.63	10,125.52.
3. Total Deficit (1-2)	**(8,857.01)**	**(12,165.62)**	**(13,400.08)**	**(8,901.55)**	**(12,879.57)**	**(16,996.58)**
Federal Block grant	8,818.49	12,203.68	13,714.34	14,385.3	17,213.20	20,021.00.

Source: Ethiopian Ministry of Finance and Economic Cooperation, 2023

Moreover, Trends in total expenditure, ranges from 11,121.41 million Birr in 2016/17 to 20,021.20 million Birr in 2021/22. This increase is a result of the effort invested in the provision of public services as well as the investment in infrastructure by the regions.

Recurrent versus Capital Expenditure, Depending on capital expenditures, recurrent costs have cost increased and may be further increased by continuous urbanization-without counting operational costs. Capital expenditure is also increasing, thus evidence that investment is being made towards infrastructure and development projects. Focus on Development, the rising capital expenditure suggests a favorable strategic focus towards enhancing the very foundation that's of so critical importance for long-haul economic growth.

Fiscal Deficit Analysis: The Somali Region has been in a chronic significant fiscal deficit, which has increased from -8,857.01 million Birr in 2016/17 to -12,879.57 million Birr in 2021/22, signifying that expenditures have gone much beyond revenues. Implications of the Deficits: Continuous deficits create difficulties for financial sustainability and may require additional borrowing or new federal grants.

Federal Block Grant: The federal blocks grants become an important source for reducing the gap between own revenue and expenditure, thus showcasing the dependency on the external sources to meet budgetary requirements of the regions.

Conclusions and Recommendations to balance the deficit:

- Revenue Enhancement Requirement: Improve revenue collection through improved compliance, widening the tax base, and the identification of alternative revenue sources to raise the tax revenue in the Somali Region.
- Expenditure Management: The effective management of both recurrent and capital expenditures will be crucial in keeping the fiscal deficit low.
- Prioritizing high-impact essential services and investments will yield high returns.
- Long-term Strategy for keeping the region's financial health, a sustainable fiscal strategy is needed, which addresses all structural factors that contribute to the deficit and promotes economic growth.
- The analysis portrays crucial revenue and expenditure trends for the Somali Region, indicating that there is a need for strategic financial management in addressing the current fiscal challenges.

➢ ***Government Policies on Revenue Collections***

The Somali Region of Ethiopia, like other regions in the country, follows the tax policies and regulations set by the federal government. The federal government establishes the overarching tax framework, while regional governments, including the Somali Region, implement and administer tax collection within their jurisdictions.

Tax Administration: The regional government, through its tax authority, is responsible for tax administration and collection within the Somali Region. They enforce tax laws, register taxpayers, process tax returns, conduct audits, and collect taxes owed.

Tax Incentives: The government may offer tax incentives and exemptions to promote specific industries or encourage investment in certain sectors of the economy. These incentives can include tax holidays, reduced tax rates, Investment Allowances, Tax Credits, Customs Duty Exemptions or special deductions.

Compliance and Enforcement: The government emphasizes tax compliance and enforcement measures to ensure that taxpayers meet their tax obligations. This includes monitoring and auditing taxpayers, imposing penalties for non-compliance, and taking legal action against tax evaders.

Taxpayer Education and Support: The government may provide taxpayer education programs and support services to enhance taxpayer understanding of their rights and responsibilities. These initiatives aim to promote voluntary compliance and improve overall tax collection.

- ***Tax administration effectiveness***

Tax Authority: The Somali Region has its own tax authority responsible for tax administration within its jurisdiction. The effectiveness of the tax authority's operations, including its organizational structure, staffing, and capacity, can impact tax administration in the region.

Compliance and Enforcement: The effectiveness of tax administration relies on the ability of the tax authority to ensure compliance with tax laws and regulations. This includes effective taxpayer registration processes, accurate tax assessment and collection, and robust enforcement mechanisms to address non-compliance and tax evasion.

Technology and Systems: The adoption and use of modern technology and information systems can enhance tax administration effectiveness. Efficient tax administration systems can streamline processes, improve data management, facilitate taxpayer communication, and enable effective monitoring and reporting of tax activities.

Training and Capacity Building: Providing adequate training and capacity building programs for tax officials is crucial for effective tax administration. Continuous professional development and knowledge enhancement help tax administrators stay updated with evolving tax laws, regulations, and administrative procedures.

Taxpayer Education and Support: Effective tax administration involves educating taxpayers about their rights and responsibilities, providing guidance on tax compliance, and offering support services to address taxpayer queries and concerns. This helps foster voluntary compliance and improves the overall effectiveness of tax administration.

Collaboration and Information Sharing: Collaboration between the tax authority and other government agencies, including customs, finance, and business registration departments, can contribute to effective tax administration. Sharing information and coordinating efforts can help identify potential tax gaps, detect fraudulent activities, and improve overall revenue collection.

- ***Compliance level and political stability***

Compliance Levels: Tax compliance refers to the extent to which taxpayers fulfill their tax obligations in accordance with the tax laws and regulations. Compliance levels can vary depending on factors such as the awareness and understanding of tax obligations, the *effectiveness of tax administration*, the perception of fairness in the tax system, and the presence of informal economy activities. Higher compliance levels contribute to increased tax revenues and fiscal stability.

Informal Economy: The Somali Region, different than other regions in Ethiopia, it has a significant informal economy, which can impact tax compliance levels. Informal economic activities may operate outside the formal tax system, leading to challenges in tax collection and compliance monitoring.

Political Stability: Political stability plays a crucial role in creating an environment conducive to economic growth and development, as well as tax compliance. A stable political environment fosters investor confidence, encourages business activities, and promotes compliance with tax laws. Conversely, political instability, conflicts, or security concerns can negatively impact compliance levels and overall economic conditions.

Governance and Institutional Factors: The effectiveness of governance and institutions in the Somali Region, including the tax authority and other relevant government bodies, can influence compliance levels. Transparent and accountable governance, efficient public administration, and effective enforcement mechanisms contribute to higher compliance rates.

Rule of Law and Enforcement: The rule of law and the enforcement of tax laws are crucial for ensuring compliance. A well-functioning legal system, backed by effective enforcement measures, helps deter tax evasion and non-compliance while promoting fairness and equity in the tax system.

4.4 Outcomes for the Questionnaires & Interviews

To examine the impact of tax revenue on economic development in Somali region, the researcher has developed a number of questionnaires and interviews presented in chapter 3, after analyzing the questionnaires and interviews, the researcher has compiled the comprehensive understanding of the respondents (question & responds) as specified below.

Questions and Responds summarized as follows:

Q1: interviewers were asked to describe their understanding of the relationship between tax revenue and economic development?

R1: Tax revenue is essential for funding government initiatives that drive economic development. It provides the resources necessary for infrastructure projects, social services, and public programs that create a conducive environment for businesses to succeed and for communities to improve.

Q2: Key ways in which tax revenue contributes to economic development?

R2: Through investment and improving infrastructure such as roads, bridges, and public transportation, which facilitate trade and mobility. Invest and improve public Services such as education and healthcare, enhancing human capital and improving productivity. Invest and improve Social Programs such as social safety nets can reduce poverty and inequality, promoting social stability and economic participation.

Q3: Personal Observations of Tax Revenue Impact on economic development?

R3: Proper tax revenue collection and utilization will facilitate the construction of new schools and healthcare facilities. These developments may in turn improve access to essential services, leading to better educational outcomes and health facilities for the residents.

Q4: Specific examples of effective use of tax revenue to promote economic development?

R4: A notable example is a jigjiga municipality initiative that allocated tax revenue to expand jigjiga main road corridor and karamara hospital road corridor starting on November 2024, assuming expanded road with green environment will create job opportunities and increase tourism visiting jigjiga town, This project which is also started throughout the main cities in

Ethiopia, will not only improve the economic landscape but also will enhance community engagement and future towns development.

Q5: Challenges in Utilizing Tax Revenue:

R5: Some of the main challenges include bureaucratic inefficiencies that slow down project implementation, personal interests based on background or elected districts of the politicians, lack of transparency in how funds are allocated, and political considerations that may skew priorities away from community needs.

Q6: Prioritizing allocation of tax revenue:

R6: most of the interviewers stated that, to prioritize tax revenue for infrastructure and education. These sectors are foundational for long-term economic growth; they create jobs, enhance productivity, and provide the skills necessary for a competitive workforce.

Q7: What are the sectors needing more attention:

R7: Specific sectors like Livestock, Agriculture, trade and technology should be given more attention and funding. Investing these areas can be encouragement innovation, create sustainable jobs, and position the region for future economic challenges.

Q8: Barriers to effective utilization of tax revenue:

R8: Barriers include corruption, clan based personal interest, lack of accountability mechanisms, and inadequate planning processes that fail to align tax revenue allocation with community needs and development goals.

Q9: Role of government policies and regulations:

R9: Government policies play a crucial role in establishing a clear framework for tax collection and allocation. Effective regulations ensure that tax revenues are used transparently and efficiently, aligning with strategic development objectives.

Q10: Recommendations to enhance impact:

R10: To enhance the impact of tax revenue on economic development, interviewers recommended the following points:

- Increasing transparency in tax revenue allocation.
- Engaging community stakeholders in decision-making processes.
- Implementing strong monitoring and evaluation systems to assess the effectiveness of funded projects.
- Investing in capacity building for local governments to improve their ability to manage and utilize tax revenues effectively.

Outcome of the Interview Questions:

Q1: How do tax payers in the Somali region perceive the current tax policies and their effect on economic development?

R1: Taxpayers in the Somali Region often perceive current tax policies as difficult and complex. Many express concerns that the policies do not adequately reflect their economic realities, which can hinder obedience. There is a general feeling that clearer, more equitable policies could enhance their contributions to economic development.

Q2: What are the experiences and challenges faced by tax payer's in complying with tax regulations in the Somali region?

R2: Taxpayers face several challenges, including a lack of understanding of tax regulations, bureaucratic inefficiencies, and inconsistent enforcement. Many report difficulties in accessing information about their obligations, which can lead to unintentional non-compliance and penalties.

Q3: How do revenue authority officials and other government leaders in the Somali region perceive the relationship between tax revenue collection and economic development?

R3: Government officials and policymakers recognize the critical role of tax revenue in funding development initiatives. However, they often feel constrained by the need for reform in tax administration and public perception issues. Many believe that improved tax collection directly correlates with enhanced economic development, but they also acknowledge the challenges in achieving this.

Q4: What are the opinions and attitudes of community members in the Somali region regarding the impact of taxes on local economic growth?

R4: Community members generally view taxes as essential for local economic growth, particularly when they see tangible benefits like improved infrastructure and services. However, there is skepticism about how tax revenues are utilized, leading to calls for greater transparency and accountability.

Q5: How do tax incentives or exemptions provided by the revenue authority influence investment and economic development in the Somali region?

R5: Tax incentives and exemptions are perceived as important tools for attracting investment. Many businesses express that these incentives can significantly influence their decisions to expand or invest, particularly in sectors like agriculture and manufacturing, where initial costs can be high.

Q6: What are the perceived effects of tax revenue collection and employment creation on the overall economic development of the Somali region?

R6: There is a consensus that effective tax revenue collection can lead to increased public investment, which in turn creates jobs. Employment generation is seen as a critical component of economic development, with tax revenues facilitating the funding of programs and infrastructure that support increasing employment opportunity.

Q7: How do different sectors, such as livestock, agriculture, manufacturing, and services, perceive the impact of tax policies on their growth and development in the Somali region?

R7: Different sectors have varied perceptions of tax policies. For instance, the agriculture sector often feels overburdened by taxes, while the manufacturing and services sectors may see potential benefits from incentives. Overall, businesses advocate for a more balanced approach that considers their specific challenges.

Q8: What are the potential barriers or facilitators for businesses to invest and expand in the Somali region, considering the existing tax environment?

R8: Barriers to investment include complex tax regulations, perceptions of corruption, and political instability. Conversely, facilitators include the availability of tax incentives, supportive local governance, and community engagement in business development initiatives.

Q9: How do tax revenues collected in the Somali region contribute to local infrastructure development and public service provision?

R9: Tax revenues are crucial for local infrastructure development and public services. Stakeholders report that well-managed tax revenues lead to better roads, schools, and healthcare facilities, which are essential for fostering a conducive environment for economic growth.

Q10: What are the recommendations and suggestions you may provide as a key stakeholders in the Somali region for improving the tax system and promoting economic development?

R10: key stakeholders in the Somali region can enhance the effectiveness of the tax system and create a more energetic economic landscape, ultimately leading to sustainable development and improved living standards for the population.

The above questions and answers are the summary of the questionnaires and interviews conducted by the researcher that reflects the comprehensive understanding of the perceptions and challenges related to tax revenue and its impact on economic development in the Somali Region. Questions and answers are briefly highlights the need for reforms and increased collaboration among stakeholders to create a more effective and equitable tax system.

4.5: Impact of tax revenue on key sectors of the Somali Region's economy

Tax revenue plays a central role in the economy of the Somali Region and is likely to shape a number of dimensions of economic growth, service delivery, and governance. Proper Tax revenue collection and utilization has a positive impact on some of the key dominant sectors of Somali region, below will state how a tax revenue may has an impact on key sectors..

Agriculture

Agriculture and livestock are considered as the primary sources of income for the Somali region population, according to the relationship between tax revenue and agriculture it is basically focused on the following three main areas : a) ***Infrastructural development***: If regional tax revenue collection increases, there will be a very high possibility of better connected roads and irrigation system necessary for agricultural activities to be invested; this in turn increases the agricultural productivity in the region. b) ***Services for Farmers***: Revenue can also be used for funding assistance to farmers which may include providing them with subsidies, educating them and even providing them with technology to raise productivity. c) ***Research and Development***: Collected revenues can also be redirected to invest agricultural sector aimed at improving crop productivity and farming practices.

Livestock

Animal Health Services: Tax income could be used to provide veterinary services and disease prevention programs, which is essential in preserving the health and productivity of the livestock. *Market Access*: Enhanced revenue may prompt the improvement of infrastructure thereby enabling performers of livestock farming to access wider markets and earn better returns for their products.

Regulatory Policy: More revenue collection allows for better regulatory structures that promote ethical and sustainable livestock management practices.

Trade and Business

Business Environment: A more sustained collection of tax income can help improve the business environment in terms of better regulatory frameworks and infrastructure as well as help better pulls investments.

Public Services: increased revenue collection can help to address solving problems by providing necessary public goods and utilities that most businesses people require to operate (i.e. road, electricity and water), which in turn increases the level of economic activity.

Formalization of the Informal Sector: Taxation may boost informal business people to formalize their business thereby enhancing their resource and credit levels.

Government Structure on Taxation

Capacity Building: More tax income means more funds for the government, which can also help in building more funds for the tax administration, thus promoting better compliance rates.

Public Accountability: Ensuring the Obligation to the Pay Taxes in a well-established tax system, the region is able to manage the public burden in a fairer way, which may increase the level of trust from the citizens and their willingness to pay.

Redistribution of resource: The Efficient taxation system can assist in resource transfers aimed at equity across regions within the country.

To conclude, tax revenue plays a critical role in shaping the economic landscape of the Somali Region. Enhancement of infrastructure, development of critical areas and advancement in governance are some of the changes that can be financed through efficient tax collection and are fundamental for economic expansion and development. Nevertheless, there are aspects that can frustrate these advantages like political turmoil and high levels of informal sector, thus structural changes and improvement in tax administration still have to take place.

4.6 Challenges and Opportunities for Effective Utilization of Tax Revenue for Economic Development in the Somali Region

Challenges;

Political Instability: Ever-increasing regional clan disputes within the Somali region or neighboring ethnic regions and persistent of political instability may affect proper collection of taxes and efficient use of resources for development. Regional administration leaders and revenue authority heads and employees turn over that may cause low revenue collection

Limited Administrative Capacity: Limited capacity and knowhow of local tax authorities employees that may lead to inefficiencies in tax collection, resulting in lower revenue and ineffective utilization

Informal Economy (Untaxed Economic Activities): A large part of Somali region's economic processes is conducted in the informal sector (ie, Illegal Business) which complicates tax assessment and collection, thereby reducing overall revenue and increasing tax evasion.

Public Awareness and Compliance: Educating the Somali society's regarding on their tax obligations is vital and much necessary; otherwise taxpayers would not be obedient. But this is often lacking.

Poor Infrastructure Facilities: Lack of proper road, electricity and water facilities in the region will discourage investment of economic activities hence this in turn will interfere with tax collection and provision of services that depend on tax revenues.

Corruption and Mismanagement: Corruption within tax administration when collecting and mismanagement of resources after collecting from the citizens can undermine public trust and reduce the effectiveness of tax revenue utilization

Opportunities:

Tax Reform (Policy development): Implementing reforms to modernize tax collection processes and broaden the tax base can enhance revenue and improve compliance.

Capacity Building: Enhancing training and capacity for tax officers who are collecting revenues and tax administrative in the offices may lead efficient tax administration and proper utilization of the collected revenues.

Technology: use of technology on tax collection and management to promote high efficiency, transparency and compliance, may increase tax revenue collection and utilizations.

Public Engagement and Education: Increasing peoples engagement regarding the importance of taxes pay for development may lead to a better culture of compliance and accountability

Targeted Investments: Directing tax revenue towards critical infrastructure projects, healthcare, and education can enhance economic development and improve quality of life.

Partnerships with Development Organizations: Collaborating with international organizations and NGOs can provide technical assistance and funding for effective tax administration and revenue utilization.

Addressing the challenges to effective tax revenue utilization while capitalizing on available opportunities can significantly enhance economic development in the Somali Region. A focus on reform, capacity building, and public engagement will be crucial in transforming tax revenue into a powerful tool for sustainable growth and development.

4.7 Strategies & Recommendations to Tackle Tax Revenue Utilization Challenges

Implement Comprehensive Tax Reforms

Broaden the Tax Base: Take steps to help informal businesses to include formal sector business by facilitating tax registration process and providing TIN numbers,

Review Tax Policies: Tax systems have to be evaluated and reviewed regularly to ensure if they are fair, efficient, and conducive to economic growth in the region.

Strengthen Administrative Capacity

Capacity Building Programs: Provide training programs for tax administration and management to enhance their skills in tax collection, compliance monitoring, and customer service.

Resource Allocation: Allocate sufficient resources to regional tax employee's staff to avoid any kind of bribery, allocate sufficient resources to improve the functioning of the offices and its operational infrastructures.

Enhance Technology Utilization

Digital Tax Administration: Implement e-filing and online payment systems to streamline tax collection and make it more accessible.

Data Analytics: Use data analytics to identify tax compliance patterns and target areas with low compliance rates effectively.

Increase Public Awareness and Engagement

Public Education Campaigns: Launch public education campaigns to educate citizens on the importance of taxes and how tax revenue is used for public services and infrastructure.

Feedback Mechanisms: Establish channels for public feedback on tax policies and services to foster trust and accountability.

Improve Infrastructure

Investment in Key Areas: Prioritize infrastructure projects that can enhance economic activities in that specific district or area, such as roads, electricity, water, markets, and communication systems among others.

Public-Private Partnerships: Encourage private sector involvement in infrastructure development to leverage additional resources and expertise.

Fight Corruption and Enhance Governance

Transparency Initiatives: Implement transparency measures in tax administration to reduce opportunities for corruption, such as regular audits and public reporting of tax revenue.

Protections team: Establish protections team to encourage reporting of corrupt practices within tax administration and protect people who speak against corruption in tax administration to reduce the level of destructive activities within the government system.

Promote stakeholder interactions

Engagement with Businesses: Work closely with the business community to understand their challenges and promote voluntary compliance.

Partnerships with NGOs and International Organizations: Collaborate with organizations that can provide technical assistance, funding, and best practices in tax

Monitor and Evaluate Tax Policies

Regular Reviews: Assess tax policies from time to time depending on the revenues raised by the policies and the level of economic development achieved.

Adaptation and Flexibility: Openness to adjust polices upon evaluation findings so that they do not become ineffective.

As a researcher believe that, by implementing these strategies and recommendations, the government can effectively tackle the challenges associated with tax revenue utilization in the Somali Region. A focus on reforms, capacity building, technology, public engagement, and collaboration will enhance the effectiveness of tax administration and contribute to sustainable economic development.

CHAPTER FIVE

5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

Tax revenue collection plays a vital role in shaping the economic landscape of the Somali Region. Effective tax collection not only provides the necessary funds for public services and infrastructure development but also raises economic stability and growth. The relationship between tax revenue and economic development is multidimensional, impacting key sectors such as agriculture, livestock, trade, and governance.

However, the Somali Region faces significant challenges, including political instability, weak administrative capacity, and a large informal economy, which hinder effective tax collection. Addressing these challenges requires comprehensive reforms, capacity building, and enhanced public engagement to create a strong tax system that can support sustainable development.

Given the prospects of technology use, public education for the society, and foreign partner engagement, the Somali region can be able to achieve tax compliance and wonderfully work the collection of taxes. In the end, an efficient tax system will translate to better roads, better paying jobs and better quality of life for the people of the Somali Region, creating the conditions for sustainable growth and development.

5.2 Recommendations

Recommendations for Enhancing the Impact of Tax Revenue Collection on Economic Development in the Somali Region are included the following areas;

- ***Enhance the Efficiency of the Tax Administration***

- *Broadening Skills*: Invest in capacity-building training programs targeting tax administers to help them to sharpen their skills in tax evaluation, adherence check, and customer relations management.
- *Proper Funding*: Tax agencies or offices in the region should be supported, constructed, equipped, and furnished enough to carry out their duties efficiently.

- ***Extend the Tax Coverage***

- *Informal Economy*: Encourage the informal economic sector to become compliant with taxation by introducing easy tax registration and compliance methods.
- *Formal economy: Expand the Treatment of Revenue*: Consider implementing to collect all appropriate tax from existing business on time by using digital system.

- ***Promote Engagement of the Public***

- *Campaign Education*: Start a campaign consisting of a series of activities aimed at informing members of the society about the significance of tax whereby they will be able to learn how tax collections are used in their area.
- *Mechanisms for Incorporating Public Frame*: Create opportunities to allow the general public to support or oppose certain tax policy measures as a means of establishing trust and enhancing compliance.

- ***Utilize Technology***

- *Tax Compliance Solutions*: Introduce e-filling and payment facilities so that taxpayers can adhere to tax obligations more conveniently and effectively.
- *Big Data*: Introduce big data technologies to better understand the behavior of taxpayers in different regions and assess the need for the further control or assistance actions taken.

- ***Modernize Facilities and Services***

- *Invest in Critical Infrastructure*: Use collected tax revenue money on roads, markets, communication networks etc. that can stimulate economic activities.
- *Public Private Partnerships*: Promote private sector involvement in the development of infrastructure so that more resources can be obtained.

- ***Promote Political and Economic Stability***

- *Enhance Rule of Law*: Tax laws must be explicit and their application uniform in order to introduce confidence in the taxpayers and enhance tax compliance.

- *Address the Issue of Corruption*: Ensuring a degree of transparency in the administration of tax will help control corruption and build public confidence.

➢ ***Supervise and Assess the Tax Policy Implementation***

- *Regular Assessments*: Performing evaluations of these tax policies in regular intervals, with the aim being determining the impact of these interventions and encouraging changes when needed.
- *Adaptive Policies*: We've to be open and willing to adjust tax policy based on the outcome of the evaluation exercise and change in the environment.

➢ ***Strengthen international organization cooperation***

- *Request for Assistance*: Collaborate with bodies like the World Bank, IMF in tax reforms and administration programs.
- *Seek For Financial Support*: Use foreign financial resources for infrastructure development business projects that can sustain tax.

I as a researcher strongly argue that, by implementing these recommendations, the Somali Region can significantly improve the impact of tax revenue collection on its economic development. A strong tax system that promotes compliance, supports infrastructure development, and engages the public will contribute to sustainable growth and improved quality of life for its residents. Through strategic reforms and investments, the government can create a more resilient and prosperous economy.

5.3 Further Research:

This research type is the first time conducted in Somali region and Ethiopian country level, thus, as a researcher would recommend to be conducted further research directions regarding on this topic , specially to be emphasized the following research areas;

- To conduct long-term studies in order to determine the sequential effects of tax policy changes on economic growth, investment and social issues.
- Conduct sectorial analysis studies to assess the effects various tax policies have on agriculture, factories or services in order to formulate policies that will improve such sectors.
- Carefully consider tax policies and their effect in different regions within Ethiopia and foreign regions in order to improve policies through consultation of those are already evident.
- Consider the characteristics of the tax payers, the tax policies in place, the level of compliance and acceptable nature of tax payment in order to create a great tax system in the package.
- Determine the local tax revenues and economic growth prospects in the Somali Region in relation to international tax contracts and other governing frameworks.
- Establish how technology can be utilized to improve the effectiveness and efficiency of tax collection within the digital economy context. And finally
- Examine how taxes and other political institutions allocate public revenue with regard to the efficiency and effectiveness of the provision of public services funded by tax revenues.

Policy Actions needed for Enhancing the Impact of Tax on Economic Development:

- *Introduce Progressive Tax Policies*; Policies should be built towards the achieving equity. The society deserves to have taxes that are higher for the rich than the low income or general population.
- *Increase Taxpayer Awareness*; Invest in the promotion of tax compliance among citizens and businesses explaining what taxes are targeted, the need to fulfill, and what the taxes will achieve towards economic growth.
- *Encourage Investment through Tax Incentives*; Targeted tax cuts for specific sectors and regions, especially those which are investment unproductive and less developed, are needed.
- *Promote collaboration between the public and Private Sector*: Motivate the interaction of the regional bureaus with business people on the most effective use of tax powers and providing services to the population.
- *Monitor and evaluate tax policies*; Establish frameworks for regular monitoring and evaluation of tax policies and their impacts on economic development, allowing for timely adjustments
- *Encourage Regional Cooperation*; Promote regional cooperation on tax policies to facilitate trade and investment across borders, enhancing the overall economic environment.
- *Ease Tax Compliance*: Do whatever it takes to make tax compliance simple in any authority so that it does not become so burdensome for the aggressive tax payer.
- *Tighten Tax Compliance Measures***;** Develop and implement compliance strategies to enhance enforcement in the region such as undertaking audits properly.
- Overall, the researcher considers that, by prioritizing of these research directions and policy actions the stakeholders will be able to understand how tax can be a development agent and how this can be done effectively. This is a tactical perspective that combines solid research and rational tax design and administrative efficiency

5.4 Final Remarks

Final remarks on the Relationship between Tax Revenue and Economic Development in the Somali Region, the interconnection between revenue collection and economic development in the Somali Region is critical for attaining stable development and enhancing the welfare of its residents. Revenue mobilization has significance impact on economic development beyond provision of funds required for the day to day running of the government machinery as it is also important in helping in the overall economic development as identified bellow paragraphs**.**

Tax revenue is very important since it pays for critical public goods and services such as education, health care, and infrastructure development. Such services are crucial in enhancing the quality of life as well as developing the human capital which are the major factors of economic growth.

When tax revenue collection is used appropriately, it can enhance economic activity by financing construction projects or infrastructure development such as building, roads or marketplaces that encourage trade and productivity. Enhanced infrastructure minimizes costs of transportation and creates new market opportunities for the local population and economy.

A good and conducive tax system builds trust between the regional authority and its citizens. If taxpayers observe their resources spent in the development of their areas, they will be motivated to adhere to the provisions of the law and even more actively participate in the governance of their country, thus promote stability in the governance of the country.

Political instability, economic informality and weak administrative structures are some of the major challenges faced by the Somali region. Consequently, these factors hinder effective tax collection and equitable resource distribution, underscoring the need for targeted reforms and capacity-building initiatives.

There is a visible scope for increasing tax revenue by way of more extensive reforms aimed at expanding the tax base and easing compliance. Acceptance of technology in tax administration can enhance efficiency thus allowing taxpayers to meet their obligations with ease.

Inclusive and equitable tax policies are crucial. Social justice can be advanced with tax systems that are fair and take into account all social class levels, as this will minimize inequalities and foster values that promote peaceful co-existence, which is good for sustainable development.

Finally, the researcher believes that, the link between tax revenue and economic development in the Somali Region is fundamental. Provided that, if the challenges are prevailed, the reform opportunities are maximized, proper revenue utilization measures are taken, and good governance administration is embraced. Absolutely, the region can turn tax revenue into an engine of economic development and improved public welfare, conversely citizens of the Somali Region will enjoy a much better and sustainable future.

REFFERENCES

Abdioglu, N., Binis, M., & Arslan, M. (2016). The effect of corporate tax rate on foreign direct investment: A panel study for OECD countries. EGE Academic Review, 16(4), 599–610.

Adams, S. (1910). The Wealth of Nations. London: Everyman's Library Ltd.

Anyanwu, J. C. (1993). Monetary economics: Theory, policy, and institutions. Benin City Hybrid.

Ahmad, S., & Sial, M. (2016). Taxes and economic growth: An empirical analysis of Pakistan. European Law Review, 8 (6), 01

Babatunde,O. A., Ibukun, A. O., & Oyeyemi, O. G. (2017). Taxation revenue and economic growth in Africa. Journal of Accounting and Taxation, 9(2), 11–22.

Behrman, J.R. (2017). Economics of development. International Encyclopedia of the Social & Behavioral Sciences, 4(3), 111-119.

Barro, R. J. 1990. Government Spending in a Simple Model of Exogenous Growth. Journal of Political Economy 98: 103–125.

Carnahan, M. (2015). Taxation challenges in developing countries. Asia and the Pacific Policy Studies, 2(1), 169–182.

CSA (2007). *Population and housing census for Ethiopia: Result for Somali Regional State. Addis Ababa.*

Dasalegn M. (2014). Contributions of tax revenue for economic growth of Ethiopia, the paper work Prepared for MSC in Addis Ababa

Delessa D. (2014). Tax Reforms and Tax Revenues Performance in Ethiopia, Journal of Economics and Sustainable Development Vol.5, No.13, 2014

Disney, R. (2000). The impact of tax and welfare policies on employment and unemployment in OECD countries.

Eugene, N., & Abigail, E. C. (2016). Effect of tax policy on economic growth in Nigria (1994-2013). International Journal of Business Administration, 7(1), 50–58.

Gupta, S.P., and Gupta, M.P (2002). Business statistics.Suttan Chand and sons, New Dehli.

Hakim, T. A. (2020). Direct versus indirect taxes: Impact on economic growth and total tax revenue. International Journal of Financial Research, 11(2)

Hayami, Y. 2009. Social Capital, Human Capital and the Community Mechanism: Toward a Conceptual Framework for Economists. Journal of Development Studies 45(1): 96–123.

Jacoby, H. 2000. Access to Markets and the Benefits of Rural Roads. Economic Journal 110(465): 713–737.

Jhingan, M. L. (2004). Money, banking, international trade and public finance. Vrinda.

Korkmaz, S.Yilgor, M., & Aksoy, F.(2019). The impact of direct and indirect taxes on the growth of the Turkish economy. Public Sector Economics, 43(3), 311–323.

Lien, N. P. (2015). The Impact of Demographic Transition on Tax Revenue in Indonesia. Asian Journal of Empirical Research Journal, 5(10), 181–195.

Maganya, M. H. (2020). Tax revenue & economic growth in developing country: An autoregressive distribution lags approach. Central European Economic Journal,7(54), 205–217.

MOFEC, (2023). Ministry of finance and economic cooperation of Ethiopia: Annual report records.

MOR, (2018). Ministry of revenue of Ethiopia: Annual Report on Custom Duties and Taxes

Murphy, K., A. Shleifer, and R.W. Vishny. 1989. Industrialization and Big Push. Journal of Political Economy 97(5): 1003–1026.New York: Pearson

Nikolka, T. (2016). Taxation and female labor supply in OECD countries.

Ocran, M. K. (2011). Fiscal policy and economic growth in South Africa. Journal of Economic Studies, 38(5), 604–618

Ojong, C. M., Anthony, O., & Arikpo, O. F. (2016). The impact of tax revenue on economic growth: Evidence from Nigeria. Journal of Economic and Finance, 7(1), 32-38.

Okoye, P.V. C. &Ezejiofor, R. A. (2014).The impact of e-taxation on revenue generation in Enugu, Nigeria. International Journal of Advanced Research, 2(2), 449-458.

Poulson, W., & Kaplan, G. (2008). State income taxes and economic growth. Cato Journal, 28(1), 53–71.

Saunders, M., Lewis, P., & Thornhill, A. (2007). Research methods for business students" (4th ed.). Pearson ill: Edinburgh Gate, England.

Summerfield, R.M. (1980). An Introduction to Taxation. Harcourt Brace: Jovanovich.

Sen, A.K. (2019). What is economic development? Definition and Examples

Tanzi, V., & Zee Howell, H. (2000). Tax policy for emerging markets: Developing countries. National tax journal, 53(2), 299-322.

UNDP Ethiopia. (2023). Quarterly Economic Profile in Ethiopia

UNDP. (2016). Working Paper Performance and Prospects of Tax Collection in Ethiopia.

UNICEF. (2018). Somali Regional State Budget Brief: 2007/08 – 2015/16.

Van de Walle, D. 1996. Infrastructure and Poverty in Viet Nam. LSMS Working Paper. No. 121. Washington, DC: The World Bank.

Widmalm, F. (2001). Tax structure and growth: Are some taxes better than others? Public Choice, 107(3/4), 199–219.

APPENDIX- 1

SELINUS UNIVERSITY
OF SCIENCES AND LITERATURE

To whom it may concern,

It is attested that the student:

BASHIR ABDIRAHMAN NUR, resident in Jijiga, Ethiopia

Registration number: UNISE2379IT - Date of enrollment: 15-05-2023

Is enrolled in the faculty of **Business & Media** of Selinus University and is about to pursue a **PhD in Economics**.

This letter will formalize the process of gathering the necessary information and data for the student's research thesis through questionnaires and interviews. Since his research work will be implemented in his PhD thesis, you are kindly requested to provide the information he needs. We assure you that there will be no misuse of this information and the source of this information will be kept concealed.

The student will carry out his research work with constant commitment in order to defend his final doctoral thesis that is about: *Impact of Tax Revenue on Economic Development in Somali Region of Ethiopia.*

This letter is issued for permitted uses in each country.

Selinus University of Sciences and Literature,

8th April 2024

Dr. Salvatore Fava - President of Selinus University

MEMENTO AUDERE SEMPER

DOVER (USA) • PANAMA • LONDON • BOLOGNA • RAGUSA
Global support licensee
Uniselinus Europe Networking University Srl: Via Roma, 200 - 97100 Ragusa - IT
Uniselinus Educational Group Srl: Via Roma, 200 - 97100 Ragusa - IT
info@selinusuniversity.it - www.uniselinus.education

APPENDIX-2

ጅግጅጋ ዩኒቨርሲቲ
የአካዳሚክ ጉዳዮች ም/ፕሬዝዳንት ጽ/ቤት

JIGJIGA UNIVERSITY

Vice President for the Academic Affairs Office

የእርስዎ ቁጥር: Your Ref: ______________

የኛ ቁጥር: Our Ref: JJU/AVP/ 1507/16

ቀን፡ Date: 25-7-16

TO WHOM IT MY CONCERN

Subject: Letter of Support for Ph.D. Researcher

Dear Sir/Madam,

I am writing on behalf of Jigjiga University to express support for our Ph.D. researcher **Mr. Bashir Sheik Abdirahman Nur**, to pursue his doctoral degree research titled; ***Impact of tax revenue on economic development in Somali region***, from Uniselinues University. Mr. Bashir is a talented and dedicated researcher of our university, and his research expected to hold great promise in advancing knowledge in the research field.

The University is committed to fostering research excellence and supporting our researchers in their scholarly pursuits. We take great pride in the quality and impact of the research conducted by our doctoral students, and we are excited to extend our support for Mr. Bashir for smooth research conduct. In collaborating with your esteemed Bureaus, our researcher scholar will have the opportunity to leverage the expertise, resources, and industry insights available within your organization.

This collaboration has the potential to enhance the impact of the research and contribute to practical applications and solutions in the concerned field. We thank for considering our request for support. We are confident that your collaboration with the researcher will be mutually beneficial and contribute to the growth and advancement of concerned bureaus. Together, we can make a meaningful impact on the research landscape and drive positive change. Should you require any further information or have any questions, please do not hesitate to contact me at below my address.

Best Regards

Abd. Ahmed Hasan (Ph.D)
Vice President for the
Academic Affairs

Federal Democratic Republic of Ethiopia
Jigjiga University

Tel: +251 0257755853/5936 Fax: +251 0257755947/5976 - 0257752772 P.O. Box 1020 Jigjiga Ethiopia, http/www.jju.edu.et/
መልስ ሲጽፉልን የእኛን ቁጥር ይጥቀሱ
In replying please quote our Ref.

APPENDIX-3

ጅግጅጋ ዩኒቨርሲቲ
ፕሬዝደንት ጽ/ቤት

JIGJIGA UNIVERSITY
President Office

Tel+ 251 25 7755933/5934 | 1020 Jigjiga Ethiopia | Fax+251 25775 -5976/47 | Web. jju.edu.et

ቁጥር/Our Ref: JJU/PO/0785/15
ቀን/Date: 30/12/2015

To: Somali Regional State

Office of the President

Subject; **Support for Education Payment Fee**

Jigjiga University deferentially appreciates your usual cooperation and support. I am writing this letter for the sake of ***Mr. Bashir Sheik Abdirahman*** who has been serving with us since 2010 GC in the capacity of Lecturer in Economic Department, Several months back he got an online scholarship learning program **PhD in Economics at Unisellinus University in Italy**. However, the university doesn't have the mandate to pay scholarship fee payment due to the number of staff that need to have the opportunity to learn. Therefore, would like your support on this regard, attached is the tuition fee payment letter sent to him.

Thank you for your consideration of our university request for supporting JJU lecturers to develop their professions, we believe providing such this educational upgrade will increase teacher's content knowledge, motivate personally and in turn university will guarantee experienced teachers who may serve the community and empower for producing qualified students who may compete with other worldwide students.

Please contact me with any questions you have about this request through my phone number or E-mail address.

Sincerely yours,

Beshir Abdullahi Mahammoud (PhD)
President

Federal Democratic Republic of Ethiopia Jigjiga University
የኢትዮጵያ ፌደራላዊ ዲሞክራሲያዊ ሪፐብሊክ ጅግጅጋ ዩኒቨርሲቲ

መልስ ሲጽፉልን የእኛን ቁጥር ይጥቀሱ
Replying Please quote our Ref.

Table-1 : Open-Ended Questionnaires

S/N	Table 3.1 Questionnaires with open-ended questions
1	Please describe your understanding of the relationship between tax revenue and economic development?
2	In your opinion, what are the key ways in which tax revenue contributes to economic development?
3	How you do personally observed or experienced the impact of tax revenue on economic development in your local area?
4	Could you provide specific examples or instances where tax revenue has been used effectively to promote economic development?
5	Tell us some challenges or limitations you have observed regarding the utilization of tax revenue for economic development purposes?
6	How would you prioritize the allocation of tax revenue to maximize its impact on economic development? Please explain your reasoning.
7	In your view, are there any specific sectors or areas that should receive more attention or funding from tax revenue to drive economic development? Why?
8	What are some potential barriers or obstacles that hinder the effective utilization of tax revenue for economic development?
9	What role do you believe government policies and regulations play in ensuring that tax revenue is effectively utilized for economic development?
10	Based on your experiences or observations, what recommendations would you provide to enhance the impact of tax revenue on economic development in Somali Region of Ethiopia?

Source: Researchers own developed questioners (2024)

Table-2 : Semi-Structured Interview Questions

S/N	Semi-structured Interview Questions
1	How do tax payers in the Somali region perceive the current tax policies and their effect on economic development?
2	What are the experiences and challenges faced by tax payer's in fulfilling with tax regulations in the Somali region?
3	How do revenue authority officials and other government leaders in the Somali region perceive the relationship between tax revenue collection and economic development?
4	What are the opinions and attitudes of community members in the Somali region regarding the impact of taxes on local economic growth?
5	How do tax incentives or exemptions provided by the revenue authority influence investment and economic development in the Somali region?
6	What are the perceived effects of tax revenue collection and employment creation on the overall economic development of the Somali region?
7	How do different sectors, such as livestock, agriculture, manufacturing, and services, perceive the impact of tax policies on their growth and development in the Somali region?
8	What are the potential barriers or facilitators for businesses to invest and expand in the Somali region, considering the existing tax environment?
9	How do tax revenues collected in the Somali region contribute to local infrastructure development and public service provision?
10	What are the recommendations and suggestions you may provide as a key stakeholders in the Somali region for improving the tax system and promoting economic development?

Source: Researchers own developed interview questioners (2024)

Table 3: Government Tax Revenue & Expenditure trends in Billions (2015-2022 GC)

Fiscal Year	Regional Domestic Revenue	Government Expenditure		
		Recurrent	Capital	Total
2015	1.85	3.66	4.88	8.54
2016	2.27	4.65	6.47	11.12
2017	2.56	5.72	9.05	14.78
2018	2.49	7.32	8.58	15.90
2019	3.13	8.33	9.42	17.75
2020	5.54	10.46	12.47	22.93
2021	7.09	13.57	15.02	28.59
2022	9.81	16.51	15.18	31.69

Source: Somali Region Bureau of Finance (2023)

Table 4: Government Domestic Revenue in 2022 GC

Type of Tax Revenue	Amount (in ETB)	Percent (%)
Direct Tax Revenue	3,456,856,552.60	35%
Non-Tax Revenue	3,812,231,364.90	39%
Indirect Tax Revenue	1,000,000,000.00	10%
Municipality Revenue	1,543,143,447.40	16%
Total	**9,812,231,364.90**	**100%**

Source: Somali Region Bureau of Finance (2022)

Table5: Government Budget Allocated for Basic Services in 2023GC

Budget Sectors	Budget Allocated (in ETB)		
	Recurrent	Capital	Total
Total Regional Budget	**19,129,372,459.00**	**19,266,612,334.00**	**38,395,984,793.00**
Total Budget Allocated for Services	8,055,884,603.00	13,646,299,967.00	21,702,184,570.00
Agriculture & irrigation Development	1,160,985,141.00	3,574,554,892.00	4,735,540,033.00
Water resource Development	245,040,958.00	2,353,270,807.00	2,598,311,765.00
Job creation, urbanization & housing development	96,991,625.00	2,744,495,280.00	2,841,486,905.00
Education Services	3,769,670,610.00	2,362,013,113.00	6,131,683,723.00
Health services	2,736,608,624.00	1,558,015,535.00	4,294,624,159.00
Rural Road sector	46,587,645.00	1,053,950,340.00	1,100,537,985.00

Source: Somali Region Bureau of Finance (2023)

Table6: Livestock Population of Somali Region by zone and type in 2023 GC

Zone	Types and number of Livestock species							Poultry	Total
	Main Livestock				Equines				
	Camel	Cattle	Goat	Sheep	Donkey	Horses	Mules		
Regional	**7,613,181**	**5,921,911**	**19,723,294**	**13,631,048**	**969,963**	**3,842**	**843**	**525,288**	**48,389,370**
Afder zone	937,306	288,029	2,247,459	892,301	140,643	3371	0	169,945	4,679,054
Dawa zone	148,810	85,712	640,196	163,194	24,469	0	0	71,011	1,133,392
Dollo zone	776,497	370,544	1,228,555	746,120	15,826	180	22	3,144	3,140,888
Erer zone	830,408	81,881	1,517,950	1,040,366	67,973	0	0	2,766	3,641,344
Fafan zone	661,887	1,364,849	1,830,240	1,751,202	86,463	197	263	69,775	5,764,876
Jarar zone	850,237	172,534	3,049,310	2,730,643	33,447	15	0	8,443	6,844,629
Korahey zone	928,954	401,706	1,650,869	1,775,498	38,928	0	0	3,022	4,798,977
Liban zone	682,370	420,692	2,277,582	740,745	70,606	72	558	55,077	4,247,702
Shabelle zone	327,324	1,141,118	1,990,273	1,336,417	81,799	5	0	56,589	4,933,525
Sitti zone	1,103,318	1,398,199	2,604,175	1,935,673	347,081	0	0	81,357	7,469,803
Nogob zone	366,070	196,647	586,685	518,889	62,728	2	0	4,159	1,735,180

Source: Zones and City Administration Livestock Offices (2023)

Table7: Cultivated land and Crop production of Somali Region (in Quintals)

Zone	Irrigated Crop production		Rain feed Crop production		Total cultivated land (Hec)	Total Crop production (Qt)
	TCL(Hec)	TCP(Qt)	TCL(Hec)	TCP(Qt)		
Afder zone	88,296	1,725	86,305	86,925	174,601	88,650
Dawa zone	163,620	1,031,317	53,256	53,256	216,876	1,084,573
Dollo zone	6,827	36,791	2,569,852	2,569,852	2,576,679	2,606,643
Erer zone	32	398	891	891	923	1,289
Fafan zone	8,464	10,908	17,782	64,842	26,246	75,750
Jarar zone	709	5,045	58,124	147,528	58,833	152,573
Korahey zone	33,306	609,213	132,649	132,649	165,955	741862
Liban zone	1,046	1,777	4,515	4,535	5,561	6,312
Shabelle zone	63,666	664,337	53,984	53,984	117,650	718,321
Sitti zone	4,983	68,915	25,970	371,516	30,953	440,431
Nogob zone	1,301	499	2,526	2,526	3,827	3,025

Source: Districts and City administration Agriculture Office (2023)

Table: 8 Government employees by Regional and zone in Somali Region (2023)

Zones in Somali Region	Number of Employees		
	Male	**Female**	**Total**
Regional Level Sector Bureau	16,527	5,416	21,943
Zonal Administration Level	4,372	2,007	6,379
Total	**16,527**	**5,416**	**6,379**

Source: Bureau of Planning and economic development (2023)

Table:9 Number of government employees by zone in Somali Region(2023)

Zones in Somali Region	Number of Employees		
	Male	**Female**	**Total**
Afder zone	3,597	1,854	5,451
Dawa zone	1,816	751	2,567
Dollo zone	3,517	1,729	5,246
Erer zone	3,355	1,700	5,055
Fafan zone	8,559	4,278	12,837
Jarar zone	6,121	3,671	9,792
Korahey zone	5,297	3,474	8,771
Liban zone	4,745	2,102	6,847
Shabelle zone	8,111	3,649	11,760
Sitti zone	5,545	2,415	7,960
Nogob zone	3,425	1,671	5,096
Total	**54,088**	**27,294**	**81,382**

Source: Bureau of Planning and economic development (2023)