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WORKING PAPER

Fiscal Governance at the Edge of the State:

District-Level Public Financial Management, Accountability, and Climate Resilience in Somalia

The Institute of Public Finance of Somalia (IPF)

The Institute of (IPF) is an independent public policy and research institution dedicated to advancing evidence-based solutions for public financial management, fiscal governance, and economic development in Somalia. Through research, policy analysis, and strategic engagement, IPF supports informed decision-making and strengthens accountable public institutions.

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Data availability

Data supporting the findings are available from the corresponding author upon reasonable request, subject to confidentiality agreements with participating districts.

Ethics and consent

The article reports institutional and administrative assessment findings and does not disclose personally identifiable information.

Abstract

District governments are the point at which fiscal federalism is most visible to citizens, yet they are also the tier least examined in Somalia's public financial management (PFM) reform agenda. This article presents analysis of district-level PFM across 15 districts in five Federal Member States: Puntland, Hirshabelle, Galmudug, South West, and Jubaland. Drawing on a mixed-methods field assessment conducted by the Institute of Public Finance of Somalia, the study combines structured interviews, document review, fiscal data screening, and a 24-indicator PFM System Strength Index. The evidence shows that district PFM is not merely weak; it is structurally misaligned with the constitutional and political expectations placed on local governments. The mean index score is 3.47 out of 24, no district scores above 8, and only limited basic tools—such as annual approved budgets, banking arrangements, procurement committees, and electronic bookkeeping—are present in more than a minority of districts. Three mutually reinforcing constraints explain the pattern: an assignment-resource gap that leaves districts with broad mandates but narrow and unreliable revenues; a rule-practice gap in which informal power networks, clan bargaining, and patronage frequently override formal procedures; and a shock-buffer gap in which droughts, floods, and rapid urbanization erode already thin fiscal capacity.

The article contributes to the literature on PFM in fragile and conflict-affected settings by shifting attention from central government reform to the district frontier and by integrating climate-responsive PFM into sub-national fiscal governance. Recent scholarship demonstrates that PFM reform in fragile states often follows non-standard sequencing, with budget execution improving faster than formulation or accountability, and that substantial progress is possible when reforms are tailored to institutional and capacity contexts. This study extends these insights to the district level, where fiscal institutions are weakest yet citizen expectations are highest. It argues for a sequenced reform strategy that begins with minimum viable PFM—standardized charts of accounts, routine reporting, bank reconciliation, procurement registers, audit pathways, and participatory disclosure—before progressing to advanced digital systems and performance-based transfers. The findings have direct implications for Somalia's fiscal federalism settlement, domestic revenue mobilization, service delivery, and climate resilience.

Keywords: public financial management; fiscal federalism; district governance; Somalia; fragile states; climate-responsive PFM; decentralization; accountability; domestic revenue mobilization; political economy

JEL classification: H70; H72; H83; O17; O55; Q54

Highlights

The study analyzes the first systematic district-level PFM evidence base covering 15 districts across five Federal Member States in Somalia.

A 24-point PFM System Strength Index reveals very limited formal capacity: the sample mean is 3.47 and no district exceeds 8 points.

District fiscal weakness is driven by three interlocking gaps: mandates exceed resources, formal rules diverge from informal practice, and climate shocks exceed local fiscal buffers.

The article proposes a sequenced reform path: minimum viable PFM first, then formula-based transfers, audit expansion, climate budgeting, and deeper digitalization.

The paper extends fragile-state PFM literature by locating the reform frontier at the district level and integrating climate resilience into sub-national fiscal systems.

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1. Introduction

Public financial management is often treated as a central government reform problem. Budgets, treasury systems, procurement laws, financial reporting, audit institutions, and revenue administration reforms are usually diagnosed and strengthened at the national level. In fragile and conflict-affected states, however, citizens encounter the fiscal state most directly through the local offices that regulate markets, collect fees, maintain roads, manage local services, and respond to emergencies. District governments—the tier below regional or state administrations—are where fiscal federalism becomes tangible, where budgets translate into classrooms and clinics, and where accountability is tested in everyday interactions. Yet district-level PFM remains the least studied and least supported dimension of fiscal reform in post-conflict settings.

This gap is particularly acute in Somalia, where three decades of state collapse, ongoing insecurity, and contested sovereignty have left public institutions fragmented and fragile. Since 2012, Somalia has made significant strides in rebuilding central government PFM systems, including the passage of the Public Financial Management Act (2019), adoption of the Integrated Financial Management Information System (IFMIS), and progress toward Heavily Indebted Poor Countries (HIPC) debt relief (Paul-Warburton, 2025). The Federal Government of Somalia's PFM Roadmap Action Plan 2021-2024 outlines ambitious reforms in budget credibility, transparency, and accountability (Federal Government of Somalia, Ministry of Finance, 2021). However, these reforms have concentrated on federal and Federal Member State (FMS) levels, leaving district governments—the tier closest to citizens—largely unexamined and unsupported.

The literature on PFM reform in fragile and conflict-affected states has established several key insights. First, substantial PFM progress is achievable even in challenging environments, but reform sequencing often deviates from standard assumptions, with budget execution improving faster than formulation or accountability functions (Fritz et al., 2011). Second, institutional legacies and political commitment significantly influence reform pace, while high aid dependency creates challenges such as staff loss to donor-funded projects and fragmented support (Fritz et al., 2011; Haque, 2018). Third, capacity constraints are widespread, leading to donor-funded substitution rather than sustainable local capacity development (Heidenhof et al., 2002). Fourth, reforms tailored to local context and building stable "plateaus" appropriate to institutional capacity are more sustainable than pursuing international "summits" of best practice (Peterson, 2011). Fifth, domestic political backing is crucial for reform implementation, and conditionality is ineffective where political establishments benefit from rent-seeking (Kolstad, 2005; Lawson et al., 2023).

Despite these advances, the literature has focused overwhelmingly on central government institutions, with limited attention to sub-national fiscal systems, particularly at the district level. This article addresses that gap by presenting the first systematic assessment of district-level PFM in Somalia, covering 15 districts across five Federal Member States. The study asks three core questions: (1) What is the current state of district PFM capacity, measured through a comprehensive system strength index? (2) What structural, institutional, and political-economy factors explain observed patterns of fiscal weakness? (3) What sequenced reform strategy is appropriate for building minimum viable PFM at the district frontier?

The article makes three contributions to the literature. First, it shifts the analytical focus from central to district-level PFM, demonstrating that the reform frontier in fragile states lies at the sub-national tier where fiscal institutions are weakest yet citizen expectations are highest. Second, it integrates climate-responsive PFM into the analysis of sub-national fiscal governance, showing how climate shocks interact with fiscal capacity constraints to create a "shock-buffer gap" that undermines district resilience. Third, it proposes a sequenced reform framework grounded in the concept of "minimum viable PFM"—a set of foundational tools and practices that must precede more advanced reforms such as performance-based transfers and digital financial management systems.

The remainder of the article proceeds as follows. Section 2 reviews the literature on PFM in fragile states, fiscal decentralization, elite capture, and climate-responsive PFM, and presents the analytical framework. Section 3 describes Somalia's district fiscal governance context. Section 4 outlines the data and methods. Section 5 presents results on district PFM capacity, accountability weaknesses, and political economy constraints. Section 6 discusses the three gaps framework and the case for minimum viable PFM. Section 7 offers policy recommendations. Section 8 concludes.

2. Literature Review and Analytical Framework

2.1 Public Financial Management Reform in Fragile and Conflict-Affected States

The literature on PFM reform in fragile and conflict-affected states has evolved significantly over the past two decades, moving from a focus on technical systems to a more nuanced understanding of institutional transmission, political economy, and context-specific sequencing. Early work emphasized the importance of rebuilding fiscal institutions through a three-step process: establishing a sound legal framework, creating a central fiscal authority, and designing appropriate tax and expenditure policies (Bhattacharya et al., 2005; Deléchat et al., 2015). This approach recognized that post-conflict countries face unique challenges, including weak rule of law, limited administrative capacity, and fragmented donor support.

More recent scholarship has highlighted that PFM reform in fragile states often follows non-standard sequencing. Fritz et al. (2011) found that budget execution functions tend to improve faster than budget formulation or accountability mechanisms, contrary to conventional reform logic. This pattern reflects the urgent need to demonstrate fiscal control and service delivery in post-conflict settings, even when planning and oversight systems remain weak. Similarly, Tavakoli et al. (2014) showed that Sierra Leone achieved significant PFM progress despite challenging conditions, with success driven by strong political commitment, reform designs tailored to institutional and capacity contexts, and effective government-led coordination.

A critical insight from this literature is that standardized PFM rules may be inconsistently implemented or ignored in fragile states due to weak rule of law and patrimonial relationships (Haque, 2018). Haque's conceptual framework demonstrates that institutional transmission mechanisms linking PFM "good practices" to improved outcomes are typically missing in fragile states, where PFM systems operate differently than in advanced economies. Increased transparency has limited impact because incentives are shaped by patronage rather than accountability. This finding underscores the importance of understanding informal institutions and political economy factors in PFM reform.

The literature also emphasizes the importance of domestic ownership and political commitment. Peterson (2011) argues that PFM is a core state function requiring full government ownership for success, and that reforms should build stable, sustainable "plateaus" appropriate to local context rather than aiming for "summits" of international best practice. Ethiopia's PFM reform succeeded by aligning with context, ownership, purpose, and strategy (COPS), focusing on improving existing systems rather than changing them (Peterson, 2010). Conversely, Mozambique's PFM reforms, though initially successful, faced challenges due to weak institutional frameworks, political interference, and donor dependency, ultimately undermining effectiveness and leading to a decline in public trust (Mozambique at a Fork in the Road, 2023).

Capacity constraints are a persistent challenge. Heidenhof et al. (2002) found that many African countries struggle with weak, non-transparent public finance institutions, and that incremental "think small" approaches are more effective than complex projects prone to failure. Adequately assessing and building capacity is essential, as IT personnel and accounting skills are scarce. Reforms should focus on existing budget execution processes and align IT solutions with broader institutional adjustments rather than relying solely on technology.

Despite these advances, the literature has focused overwhelmingly on central government institutions. Fritz et al. (2011) noted that interventions often concentrate on finance ministries, limiting reach to service delivery. Baird (2010) observed that sub-national service delivery and PFM components have emerged as a focus, but empirical evidence and comparative analysis remain limited. This article addresses that gap by examining district-level PFM in Somalia, where fiscal institutions are weakest yet citizen expectations are highest.

2.2 Fiscal Decentralization, Intergovernmental Transfers, and Local Accountability

The literature on fiscal decentralization in developing and transition economies provides important insights into the design of intergovernmental fiscal relations and the conditions under which decentralization enhances local accountability and service delivery. The theoretical case for decentralization rests on the assumption that local governments, being closer to citizens, can better match public services to local preferences and needs (Oates, 1972; Tiebout, 1956). However, the empirical evidence on decentralization's effects is mixed, with outcomes highly dependent on institutional design, local capacity, and political economy factors.

A central finding is that intergovernmental transfers are a dominant revenue source for sub-national governments in developing countries, with design critical for efficiency and equity (Shah, 2004). Tax decentralization remains an unfinished agenda, with local governments having limited own-source revenue. Accountability mechanisms such as citizen voice, exit options, and results-oriented management are crucial for success. Challenges include central government involvement in local functions, unfunded mandates, and the need for institutional arrangements for fiscal coordination (Shah, 2004).

Transfer design is particularly important. Indonesia's intergovernmental finance system, though complex, aims for revenue adequacy and local autonomy but lacks accountability for service delivery (Shah, 2012). The system's complexity leads to transparency issues, inequity, and disincentives for own-tax effort. Simpler, output-based transfers are suggested to enhance equity, transparency, and citizen-based accountability. In Nepal, intergovernmental fiscal transfers are crucial for bridging fiscal disparities and fulfilling functional responsibilities, but accountability is hindered by centralization within federal agencies, limited bureaucratic capabilities, and inadequate political commitment (Acharya et al., 2024).

Empirical studies show that the impact of fiscal decentralization on accountability depends on meeting certain assumptions, such as local capacity and transparent systems (Kolstad et al., 2006). Large intergovernmental transfers can create soft budget constraints, potentially hindering local accountability. However, local revenue generation may improve governance, though its effectiveness can be sensitive to other variables. In Indonesia, fiscal transfers significantly improve human development when accompanied by strong fiscal accountability mechanisms, but weak financial governance and lack of transparency hinder optimal use (Isman et al., 2025).

The literature also highlights the risk of elite capture and corruption in decentralized systems. Alfada (2019) found that fiscal decentralization, both on expenditure and tax revenue sides, increases corruption in Indonesian local governments, with adverse effects worsened by lack of human capital, low transparency and accountability, and high dependency on intergovernmental grants. In Ethiopia, fiscal decentralization shows central dominance in transfer design and revenue assignment, with accountability mechanisms undermined by patron-client systems and lack of genuine political participation (Chanie, 2007).

Local revenue mobilization is critical for accountability but faces significant challenges. Fjeldstad (2014) notes that fiscal decentralization reforms often face challenges due to poor intergovernmental coordination and policy inconsistencies, with local governments frequently dependent on intergovernmental transfers. Current revenue arrangements are often arbitrary, costly, and non-transparent, impacting commercialization and formalization. Effective implementation requires improved information, accountability mechanisms like citizen demand, and simplified revenue processes.

The literature emphasizes that fiscal decentralization works when local accountability is strengthened and national/local governments are linked by clear rules (Usui, 2007). Local governments need their own taxes to improve accountability, and grants require sound design. Subnational borrowing needs robust regulatory frameworks to prevent overborrowing and moral hazard. Challenges include weak local capacity, political interventions in grant allocation, and ensuring macroeconomic stability.

This article builds on these insights by examining how fiscal decentralization operates at the district level in Somalia, where formal transfer systems are nascent, local revenue mobilization is extremely limited, and accountability mechanisms are weak. The analysis shows how the assignment-resource gap—broad mandates with narrow revenues—undermines district fiscal capacity and accountability.

2.3 Elite Capture, Patronage Networks, and the Political Economy of Local Governance

The political economy literature on local governance in Africa highlights the pervasive influence of elite capture, patronage networks, and informal institutions in shaping fiscal outcomes. Elite capture occurs when local power holders—traditional authorities, political elites, or wealthy individuals—divert public resources and decision-making processes to serve their own interests rather than broader community needs (Bardhan & Mookherjee, 2000). This phenomenon is particularly pronounced in fragile and post-conflict settings, where formal institutions are weak and informal power structures fill the governance vacuum.

Acemoglu et al. (2014) demonstrate that in Sierra Leone, chiefs with fewer ruling families face less political competition and achieve worse development outcomes, reflecting civil society capture. These dominant chiefs mold civic participation for their benefit, leveraging control over land, taxation, and the judicial system. This creates patron-client relationships where citizens invest in ties with powerful chiefs, reinforcing their authority. Similarly, Labonte (2012) shows elite capture of Sierra Leone local councils through patronage links, informal norms, and political-economy power dynamics.

Patronage networks are a key mechanism of elite capture. In Uganda, the creation of new sub-national units functions as a source of patronage, allowing the president to compensate for lost patronage resources and win elections by creating new jobs at district levels for political support (Green, 2010). This strategy is common across Africa, especially during democratization, where new units are created before elections to secure votes. In Kenya, informal institutions grounded in partisan politics of the central state are key determinants of decentralized public-resource allocation outcomes, expressed through an informal model of vote buying dictated by a national political agenda (Horowitz et al., 2010).

Traditional authorities play a complex role in local governance. In Ghana, the "co-opt-elite" approach involved traditional authorities (chieftains and Tindana) in water governance, legitimizing their authority but leading to "anti-poor" policies such as land confiscation disproportionately affecting poor farmers (Wong, 2010). Informal institutions, like strong norms of conflict avoidance, silenced opposition to elites. In Africa's weak states, informal local elites (traditional chiefs, religious leaders, local party officials) gain influence by substituting for state services, leveraging this to sway voters and MPs, demanding constituency-focused representation for re-election (Bitto, 2023).

The literature identifies several mechanisms through which elite capture operates. These include leveraging development rents, using symbolic activities to maintain donor relations, and structuring membership along family, ethnic, and clientelist lines (Nygaard, 2008). Traditional authorities, particularly close relatives of chiefs, are attracted to institutions with symbolic importance, like municipalities, to regain influence and sustain traditional power relations. Informal rules and clientelist networks often override formal regulations, reinforcing existing power dynamics and excluding weaker groups from benefits.

Strategies to counter elite dominance are less well developed in the literature. Crook (2003) argues that countering elite dominance requires a serious effort to strengthen and broaden accountability mechanisms at both local and national levels. Wong (2010) suggests that strategies need to secure alternative livelihoods for the poor to break patron-client dependence and require NGOs to maintain power-sensitivity post-implementation. Musgrave et al. (2016) recommend expanding political legitimacy to include traditional institutions, applying principles of participation and accountability, and recognizing the productive role of power in society rather than solely its repressive aspects.

This article contributes to this literature by examining how elite capture and patronage networks operate in Somalia's district governments, where clan-based power structures, informal revenue collection, and political appointments shape fiscal outcomes. The analysis shows how the rule-practice gap—the divergence between formal PFM rules and informal practices—reflects deeper political economy constraints that must be addressed for sustainable reform.

2.4 Climate-Responsive Public Financial Management and Fiscal Resilience

Climate change poses profound challenges for public financial management, particularly at the sub-national level where governments are responsible for climate adaptation and disaster response but often lack the fiscal capacity and institutional tools to integrate climate risks into budgeting and planning. The emerging literature on climate-responsive PFM—also termed "green PFM" or "green budgeting"—examines how fiscal systems can be adapted to align public expenditure and revenue with environmental goals and build resilience to climate shocks (International Monetary Fund, 2021, 2022).

Green PFM is defined as a climate-sensitive approach that adapts PFM frameworks and practices to align public expenditure and revenue with environmental goals, explicitly considering broad PFM functions beyond the budgetary cycle, such as coordination with other public sector entities and fiscal transparency (Aydin, 2022). Green budgeting, a related concept, uses budgetary policymaking tools to achieve environmental goals, evaluating environmental impacts of fiscal policies and assessing coherence towards commitments (Aydin, 2022). At the sub-national level, green budgeting encompasses various practices, including carbon budgets, ecoBudgets, climate budgets, and impact analyses, with France leading in implementing these exercises across all three subnational government levels (OECD, 2022).

Implementation approaches vary widely. Climate budget tagging—the systematic identification and tracking of climate-related expenditures—has been piloted in several countries. In Indonesia, climate budget tagging in East Kalimantan and West Kutai showed that 7-47% of budgets potentially supported low carbon development, but these allocations lacked clear climate-sensitive outputs/outcomes, indicating insufficient local government fiscal space for Indonesia's NDC target (Mutiara et al., 2021). In Nigeria, high awareness of climate-sensitive PFM exists, but limited implementation of green PFM systems and processes at the sub-national level persists, with only a few states making substantial efforts (Greening PFM, 2023).

Institutional requirements for climate-responsive PFM include effective coordination and clear functional assignments, balancing central control with subnational discretion (Martinez-Vazquez, 2021). Capacity constraints—technical, administrative—are significant obstacles. Climate budgets integrate climate change mitigation into municipal governance and decision-making, expanding mandates of departments and catalyzing systemic changes through new laws, regulations, financial and institutional capacities, and inter-municipal cooperation (Mainstreaming decarbonization, 2024). However, barriers include limited jurisdiction over emissions, inadequate legal frameworks, and competition for financial resources with other public services.

Fiscal resilience—the ability of fiscal systems to absorb and recover from climate shocks—is a critical dimension. Martinez-Vazquez (2021) notes that fiscal decentralization can lead to fewer disaster-related deaths, but natural disasters can complicate subnational governments' ability to address adaptation needs. Strengthening disaster risk management capabilities at all administrative levels is crucial for fiscal resilience (Mello et al., 2022). In South Africa, climate-conscious budgeting favorably impacted infrastructure priorities in municipalities, leading to a steady rise in investments for climate-resilient initiatives like flood protection and green infrastructure, though challenges such as budget limitations and technical expertise persist (Mudau, 2025).

Integration with planning is essential. Climate change objectives should be mainstreamed into local public planning (Martinez-Vazquez, 2021). In Nepal, while provincial governments have begun designing climate strategies, local levels lack momentum due to capacity constraints and pressing local priorities, and climate budget tagging is undertaken late in the budgeting cycle, providing descriptive categorization rather than prioritizing programs (Nepal Country Climate and Development Report, 2022). Integrating climate action into public investment management requires incorporating a climate perspective into planning, resource allocation, and project implementation tools, including long-term climate strategies, national green/climate financing strategies, investment taxonomies, and integrating climate risks (Eguino et al., 2024).

This article extends the climate-responsive PFM literature to the district level in a fragile state context, showing how climate shocks—droughts, floods, rapid urbanization—interact with fiscal capacity constraints to create a "shock-buffer gap" that undermines district resilience. The analysis demonstrates that building climate-responsive PFM at the district level requires first establishing minimum viable PFM systems before integrating climate risk assessments and green budgeting tools.

2.5 Analytical Framework: Three Gaps in District Fiscal Governance

Drawing on the literature reviewed above, this article proposes a three-gaps framework to analyze district-level PFM in fragile states. The framework identifies three mutually reinforcing constraints that explain observed patterns of fiscal weakness:

1. Assignment-Resource Gap:

Districts are assigned broad service delivery mandates (education, health, water, roads, markets) but lack adequate and predictable revenue sources to fulfill these responsibilities. This gap reflects the incomplete nature of fiscal decentralization, where expenditure responsibilities are devolved without corresponding revenue assignments or reliable intergovernmental transfers. The literature on fiscal decentralization shows that this mismatch undermines local accountability, as citizens cannot hold governments accountable for services they lack resources to provide (Shah, 2004; Usui, 2007).

2. Rule-Practice Gap:

Formal PFM rules and procedures exist on paper but are frequently overridden by informal power networks, clan bargaining, and patronage in practice. This gap reflects the political economy of local governance in fragile states, where weak rule of law and patrimonial relationships mean that standardized PFM rules may be inconsistently implemented or ignored (Haque, 2018). Elite capture and patronage networks shape fiscal outcomes more than formal institutions (Acemoglu et al., 2014; Labonte, 2012).

3. Shock-Buffer Gap:

Climate shocks—droughts, floods, rapid urbanization—exceed the fiscal buffers and adaptive capacity of district governments. This gap reflects the intersection of climate vulnerability and fiscal fragility, where districts lack the resources, tools, and institutional capacity to integrate climate risks into budgeting and planning or to respond effectively to disasters. The climate-responsive PFM literature shows that building fiscal resilience requires mainstreaming climate considerations into PFM systems, but this is particularly challenging at the sub-national level in fragile states (Martinez-Vazquez, 2021; Mello et al., 2022).

3. Context: Somalia's District Fiscal Governance

3.1 Constitutional and Legal Framework

Somalia's 2012 Provisional Constitution establishes a federal system with power shared between the Federal Government of Somalia (FGS) and Federal Member States (FMS). Article 50 recognizes districts as the third tier of government, stating that "the number and boundaries of the districts of the Federal Member States shall be determined by the House of the People of the Federal Parliament." However, the constitution does not clearly delineate district-level expenditure responsibilities or revenue assignments, leaving these critical fiscal federalism questions to be resolved through ongoing political negotiations and future legislation.

The Public Financial Management Act (2019) applies primarily to the federal level, with provisions for FMS-level PFM but limited guidance on district fiscal governance. The Act establishes principles of transparency, accountability, and fiscal discipline, and mandates the use of integrated financial management systems, but implementation at the district level remains nascent. The FGS PFM Roadmap Action Plan 2021-2024 prioritizes strengthening federal and FMS-level PFM, with district-level reforms mentioned only briefly as a longer-term objective (Federal Government of Somalia, Ministry of Finance, 2021).

In practice, district governments operate under a patchwork of inherited legal frameworks, FMS-level regulations, and customary practices. Some districts have adopted local government acts or bylaws, but these vary widely in scope and enforcement. The legal ambiguity surrounding district fiscal powers creates uncertainty about revenue collection authority, expenditure responsibilities, and accountability mechanisms. This institutional vacuum is filled by informal arrangements, clan-based governance structures, and ad hoc negotiations between district administrations, FMS governments, and traditional authorities.

3.2 Fiscal Decentralization and Intergovernmental Fiscal Relations

Somalia's fiscal decentralization remains incomplete and contested. While the constitution recognizes districts as a tier of government, the fiscal architecture to support district governance is largely absent. There is no formula-based intergovernmental transfer system, no clear revenue-sharing arrangement, and no systematic mechanism for allocating resources from federal or FMS levels to districts. Districts are expected to finance their operations primarily through own-source revenues—market fees, business licenses, property taxes, vehicle registration—but these sources are limited, unpredictable, and often contested.

The absence of a formal transfer system means that districts receive ad hoc allocations from FMS governments, often tied to specific projects or political considerations rather than objective criteria such as population, poverty, or service delivery needs. Some districts receive donor-funded project support, but this is fragmented, unpredictable, and often bypasses district PFM systems. The World Bank (2021) notes that domestic resource mobilization in Somalia is extremely low, with total government revenue at approximately 5% of GDP, and that sub-national revenue mobilization is even weaker due to limited tax bases, weak administrative capacity, and political interference.

The assignment-resource gap is stark. Districts are expected to provide basic services—maintaining roads, managing markets, collecting waste, supporting primary schools and health posts—but lack the fiscal resources to do so. Citizens and businesses pay fees and taxes to district administrations, but the amounts collected are insufficient to cover even basic administrative costs, let alone service delivery. This mismatch between mandates and resources undermines accountability, as citizens cannot hold district governments responsible for services they lack the means to provide.

Intergovernmental fiscal relations are further complicated by overlapping revenue collection. In some areas, federal, FMS, and district authorities all claim the right to collect certain taxes or fees, leading to double or triple taxation, taxpayer confusion, and conflict between levels of government. The lack of clear revenue assignments and coordination mechanisms exacerbates these tensions and reduces overall revenue mobilization.

3.3 Political Economy and Clan Dynamics

Somalia's political economy is deeply shaped by clan-based power structures, patronage networks, and the legacy of state collapse. Clans and sub-clans are the primary units of political organization and social identity, and clan elders and traditional authorities wield significant influence over resource allocation, dispute resolution, and political appointments (Lewis, 1994). District governance operates within this clan-based system, with district commissioners and council members often selected based on clan representation and political loyalty rather than technical competence or electoral mandate.

Patronage networks link district administrations to FMS governments and, in some cases, to the federal level. District positions are valuable sources of patronage, providing opportunities for revenue collection, contract awards, and political influence. Appointments to district positions are often negotiated through clan bargaining and political deals, with limited transparency or public participation. This patronage-driven system creates incentives for rent-seeking and elite capture, as district officials may prioritize personal or clan interests over broader public welfare.

The rule-practice gap is evident in how district PFM operates. Formal rules and procedures may exist on paper, but informal practices often dominate. Revenue collection may be conducted by individuals with clan or political connections rather than trained civil servants. Expenditure decisions may be made through clan consultations or political negotiations rather than formal budget processes. Procurement may favor politically connected suppliers. Financial records may be incomplete or inaccessible. These informal practices reflect the weakness of formal institutions and the strength of clan-based and patronage-driven governance.

Elite capture is a persistent challenge. District resources—revenues, contracts, jobs—may be captured by local elites, clan leaders, or politically connected individuals. Ordinary citizens have limited voice in budget decisions or oversight of district finances. Participatory budgeting and social accountability mechanisms are largely absent. The literature on elite capture in Africa shows that countering elite dominance requires strengthening accountability mechanisms at both local and national levels, securing alternative livelihoods for the poor to break patron-client dependence, and maintaining power-sensitivity in reform interventions (Crook, 2003; Wong, 2010). In Somalia's district context, these strategies face significant obstacles due to weak formal institutions, ongoing insecurity, and deeply entrenched clan-based power structures.

3.4 Climate Vulnerability and Fiscal Fragility

Somalia is one of the world's most climate-vulnerable countries, facing recurrent droughts, floods, locust infestations, and rapid environmental degradation. The World Bank (2023) Climate Risk Review highlights that climate shocks have profound impacts on livelihoods, food security, and displacement, with districts bearing the brunt of disaster response and recovery. Droughts disrupt pastoralist livelihoods and reduce market activity, directly impacting district revenues from market fees and livestock taxes. Floods damage infrastructure, displace populations, and create urgent expenditure needs that exceed district fiscal capacity. Rapid urbanization, driven in part by climate-induced rural-urban migration, strains district services and infrastructure.

The shock-buffer gap is particularly acute at the district level. Districts lack fiscal buffers—reserves, contingency funds, or access to credit—to absorb revenue shortfalls or finance emergency response. They lack the technical capacity to conduct climate risk assessments, integrate climate considerations into budgeting and planning, or access climate finance. Climate-responsive PFM tools—green budgeting, climate budget tagging, disaster risk financing—are absent. The literature on climate-responsive PFM shows that building fiscal resilience requires mainstreaming climate considerations into PFM systems, but this is particularly challenging at the sub-national level in fragile states where basic PFM systems are weak (Martinez-Vazquez, 2021; Mello et al., 2022).

The interaction between climate shocks and fiscal fragility creates a vicious cycle. Climate shocks erode district revenues and increase expenditure needs, widening the assignment-resource gap. Weak PFM systems limit districts' ability to mobilize resources, plan for climate risks, or respond effectively to disasters. Elite capture and patronage networks may divert scarce resources away from climate adaptation and disaster response. Breaking this cycle requires building both fiscal capacity and climate resilience simultaneously, starting with minimum viable PFM systems that can function in low-capacity, high-fragility environments.

4. Data and Methods

4.1 Research Design and Sample

This study employs a mixed-methods research design combining quantitative assessment of PFM system strength with qualitative analysis of institutional, political economy, and climate-related factors. The research was conducted by the Institute of Public Finance of Somalia (IPFS) between October 2024 and March 2025. The study covers 15 districts across five Federal Member States: Puntland (4 districts), Hirshabelle (3 districts), Galmudug (2 districts), South West (3 districts), and Jubaland (3 districts).

The sample was selected to ensure geographic diversity, variation in security conditions, and representation of different clan configurations and economic profiles. The sample includes coastal and inland districts, urban and rural districts, and districts with varying levels of donor engagement. While not statistically representative of all Somali districts, the sample provides a robust evidence base for understanding the range of district PFM capacity and the common challenges faced across different contexts.

4.2 Data Collection

Data collection involved four main components:

1. Structured interviews: The research team conducted structured interviews with district commissioners, finance officers, revenue collectors, council members, and other district officials in each of the 15 districts. Interviews followed a standardized protocol covering budget processes, revenue collection, expenditure management, financial reporting, procurement, audit, and accountability mechanisms. A total of 127 interviews were conducted.

2. Document review: The team reviewed available district-level documents, including budgets, financial reports, revenue records, procurement files, council minutes, and audit reports. Document availability varied widely across districts, with some districts having minimal written records and others maintaining more comprehensive files.

3. Fiscal data screening: The team collected and analyzed fiscal data on district revenues, expenditures, and balances for the most recent fiscal year for which data were available. Data quality and completeness varied significantly, with many districts lacking systematic financial records.

4. Key informant interviews: The team conducted semi-structured interviews with FMS finance officials, donor representatives, civil society organizations, traditional authorities, and citizens to triangulate findings and understand broader contextual factors. A total of 43 key informant interviews were conducted.

4.3 PFM System Strength Index

The core analytical tool is a 24-indicator PFM System Strength Index designed to assess district-level fiscal capacity across six dimensions: (1) budget formulation and approval, (2) revenue mobilization and management, (3) expenditure control and cash management, (4) accounting and financial reporting, (5) procurement and asset management, and (6) audit and oversight. The index is adapted from the Public Expenditure and Financial Accountability (PEFA) framework (PEFA Secretariat, 2016) but simplified and tailored to the district context in fragile states.

Each indicator is scored as either present (1 point) or absent (0 points), yielding a maximum score of 24 points. The binary scoring approach reflects the reality that at the district level in Somalia, the relevant question is not the quality or sophistication of PFM systems but their basic presence or absence. The 24 indicators are:

Budget Formulation and Approval (4 indicators): 1. Annual budget prepared 2. Budget approved by district council or equivalent body 3. Budget aligned with a multi-year plan or strategy 4. Budget includes both revenue and expenditure projections

Revenue Mobilization and Management (4 indicators): 5. Systematic revenue collection system in place 6. Revenue records maintained 7. Receipts issued to taxpayers 8. Revenue deposited in a bank account

Expenditure Control and Cash Management (4 indicators): 9. Expenditure authorization process in place 10. Cash management system in place 11. Bank account for district funds 12. Bank reconciliation conducted regularly

Accounting and Financial Reporting (4 indicators): 13. Financial records maintained 14. Electronic bookkeeping system used 15. Financial reports produced at least annually 16. Financial reports shared with district council or equivalent body

Procurement and Asset Management (4 indicators): 17. Procurement committee or process in place 18. Procurement records maintained 19. Asset register maintained 20. Inventory of district property conducted

Audit and Oversight (4 indicators): 21. Internal audit function or process 22. External audit conducted 23. Audit reports produced 24. Audit findings acted upon

Data for the index were collected through structured interviews, document review, and direct observation. Scoring was conducted by the research team based on evidence of actual practice, not merely the existence of formal rules or stated intentions. Inter-rater reliability was ensured through team discussions and consensus scoring for each district.

4.4 Qualitative Analysis

Qualitative data from interviews and document review were analyzed using thematic coding to identify patterns related to institutional capacity, political economy factors, climate vulnerability, and reform opportunities. The analysis focused on understanding the mechanisms through which the three gaps (assignment-resource, rule-practice, shock-buffer) operate in practice and the implications for reform sequencing. Qualitative findings were triangulated across multiple sources to ensure validity.

4.5 Limitations

Several limitations should be noted. First, data availability and quality varied significantly across districts, with some districts lacking systematic financial records. This limited the depth of quantitative fiscal analysis. Second, the security situation in some areas restricted field access and the duration of data collection. Third, the study relies on self-reported information from district officials, which may be subject to social desirability bias or incomplete knowledge. Fourth, the sample, while diverse, is not statistically representative of all Somali districts. Despite these limitations, the study provides the first systematic assessment of district-level PFM in Somalia and offers robust evidence for policy recommendations.

5. Results

5.1 Assignment-Resource Mismatch: Mandates Without Means

The evidence reveals a stark mismatch between the service delivery mandates assigned to districts and the fiscal resources available to fulfill them. Districts are expected to maintain roads, manage markets, collect waste, support primary schools and health posts, regulate businesses, and respond to local emergencies. However, district own-source revenues are extremely limited, unpredictable, and insufficient to cover even basic administrative costs.

Table 1 presents the revenue composition for the 15 sample districts. The mean annual district revenue is $127,400, with a range from $42,000 to $310,000. Market fees and business licenses constitute the largest revenue sources, accounting for 58% of total revenues on average. Property taxes, vehicle registration, and other fees make up the remainder. Notably, no district in the sample receives formula-based intergovernmental transfers. Ad hoc allocations from FMS governments are reported by 6 of 15 districts, but these are small, unpredictable, and often tied to specific projects rather than general budget support.

Table 1: District Revenue Composition (15 districts, most recent fiscal year)

Revenue Source	Mean ()	Districts Reporting		
Market fees	48,200	38%	12,000 - 135,000	15
Business licenses	25,500	20%	8,000 - 68,000	15
Property taxes	18,900	15%	0 - 52,000	11
Vehicle registration	14,300	11%	0 - 38,000	9
Other fees	20,500	16%	5,000 - 47,000	15
Total own-source	127,400	100%	42,000 - 310,000	15
Ad hoc FMS transfers	18,700	-	0 - 85,000	6

Source: IPFS district PFM assessment, 2025-2026

The literature on fiscal decentralization in developing countries shows that local governments often depend heavily on intergovernmental transfers due to limited own-source revenue capacity (Shah, 2004; Fjeldstad, 2014). In Somalia's case, the absence of a formal transfer system leaves districts almost entirely dependent on own-source revenues, which are grossly inadequate. This assignment-resource gap is more severe than in most other developing countries, reflecting Somalia's extremely low overall revenue mobilization (approximately 5% of GDP) and the incomplete nature of fiscal decentralization.

Per capita district revenues are extremely low. Assuming an average district population of 150,000 (a rough estimate given the lack of reliable census data), the mean per capita district revenue is approximately $0.85 per year. This is far below the levels needed to provide even basic services. For comparison, the World Bank (2021) estimates that achieving basic service delivery in fragile states requires at least $50-100 per capita in public spending, with a significant portion at the local level.

The assignment-resource gap has several consequences. First, districts cannot fulfill their service delivery mandates, leading to citizen frustration and erosion of trust in government. Second, districts lack resources to invest in PFM systems, staff training, or infrastructure. Third, the gap creates incentives for informal revenue collection and rent-seeking, as district officials seek to supplement inadequate formal revenues. Fourth, the gap undermines accountability, as citizens cannot hold governments responsible for services, they lack the means to provide.

The literature on domestic revenue mobilization in fragile states emphasizes that raising revenues is a formidable challenge, with institutional quality, government effectiveness, and control of corruption significantly impacting tax performance (Akitoby et al., 2013). In Somalia's district context, weak institutional capacity, limited tax bases, taxpayer resistance due to poor service delivery, and political interference all constrain revenue mobilization (Fjeldstad et al., 2012; Apollo, 2017). Addressing the assignment-resource gap requires both expanding district revenue sources and establishing a formula-based intergovernmental transfer system, as discussed in Section 7.

5.2 Basic PFM Tools Largely Absent

The PFM System Strength Index reveals that basic PFM tools and practices are largely absent at the district level. The mean index score across the 15 districts is 3.47 out of 24, indicating that on average, districts have fewer than 4 of the 24 basic PFM elements in place. No district scores above 8 points, and 7 of 15 districts score 3 points or below. Figure 1 presents the distribution of index scores.

Figure 1: Distribution of PFM System Strength Index Scores (15 districts)

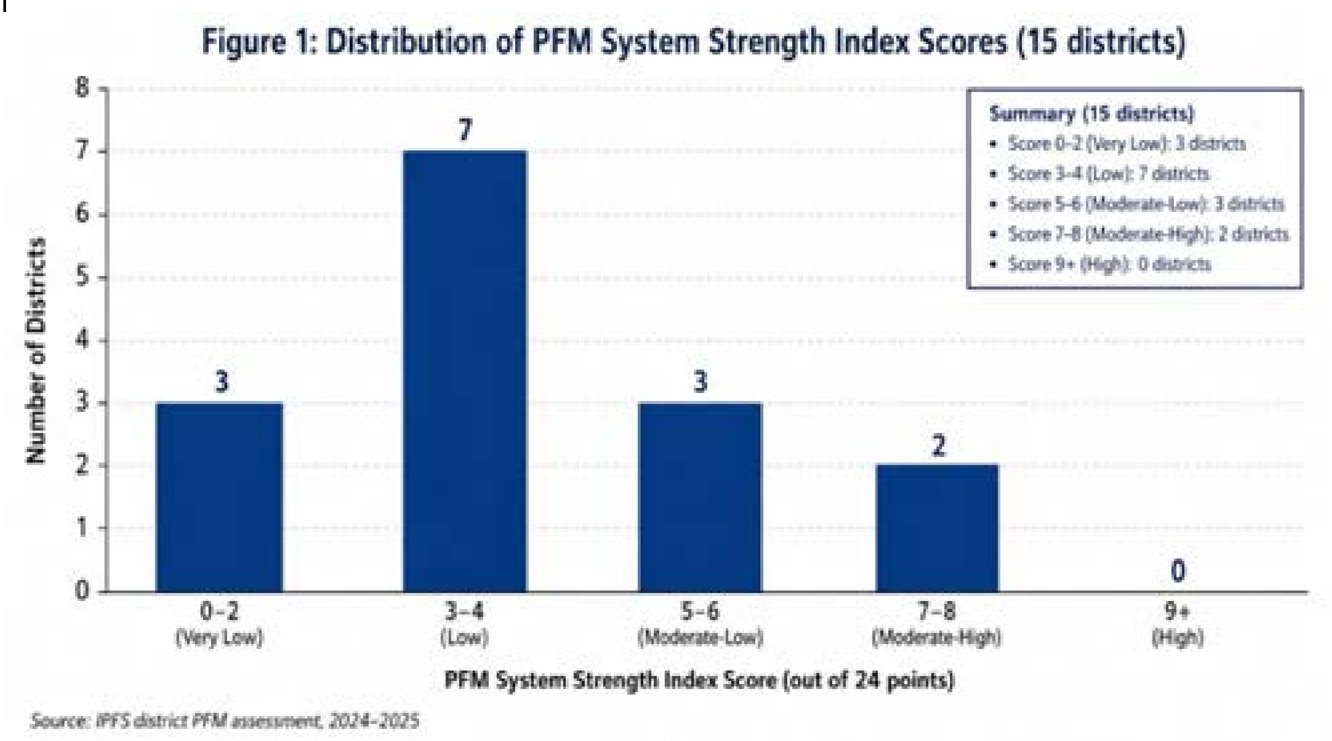

Table 2 presents the prevalence of each of the 24 PFM indicators across the sample. The most common elements are annual budget preparation (9 of 15 districts), bank accounts for district funds (8 of 15 districts), and procurement committees (7 of 15 districts). However, even these basic tools are present in only a minority of districts. More advanced elements—such as multi-year planning, electronic bookkeeping, regular financial reporting, external audit, and action on audit findings—are rare or absent.

Table 2: Prevalence of PFM System Elements (15 districts)

PFM Element	Districts with Element	% of Sample
Budget Formulation and Approval		
Annual budget prepared	9	60%
Budget approved by council	5	33%
Budget aligned with multi-year plan	2	13%
Budget includes revenue and expenditure projections	6	40%
Revenue Mobilization and Management		
Systematic revenue collection system	7	47%
Revenue records maintained	6	40%
Receipts issued to taxpayers	8	53%
Revenue deposited in bank account	8	53%
Expenditure Control and Cash Management		
Expenditure authorization process	5	33%
Cash management system	4	27%
Bank account for district funds	8	53%
Bank reconciliation conducted regularly	3	20%
Accounting and Financial Reporting		
Financial records maintained	6	40%
Electronic bookkeeping system used	4	27%
Financial reports produced annually	3	20%
Financial reports shared with council	2	13%
Procurement and Asset Management		
Procurement committee or process	7	47%
Procurement records maintained	4	27%
Asset register maintained	2	13%
Inventory of district property conducted	1	7%
Audit and Oversight		
Internal audit function or process	1	7%
External audit conducted	2	13%
Audit reports produced	1	7%
Audit findings acted upon	0	0%

Source: IPFS district PFM assessment, 2025-2026

These findings are consistent with the literature on PFM in fragile states, which shows that capacity constraints are widespread and that basic PFM functions are often weak or absent (Heidenhof et al., 2002; Fritz et al., 2011). However, the district-level situation in Somalia is more severe than at the central government level, where Somalia has made progress in establishing IFMIS, improving budget credibility, and strengthening audit institutions (Paul-Warburton, 2025). The concentration of PFM reform efforts at the federal and FMS levels has left districts far behind, creating a two-tier fiscal system where central institutions are gradually strengthening while district institutions remain extremely weak.

The absence of basic PFM tools has several implications. First, it limits districts' ability to plan, budget, and manage resources effectively. Second, it creates opportunities for corruption and mismanagement, as financial transactions are not systematically recorded or monitored. Third, it undermines accountability, as citizens and oversight bodies lack access to financial information. Fourth, it makes districts ineligible for performance-based transfers or other results-oriented financing mechanisms that require minimum PFM standards.

5.3 Bookkeeping Remains Predominantly Manual

Among the districts that maintain financial records (6 of 15), bookkeeping remains predominantly manual. Only 4 of 15 districts (27%) use any form of electronic bookkeeping system, and even in these cases, the systems are basic spreadsheets rather than integrated financial management software. The remaining districts rely on handwritten ledgers, notebooks, or loose papers to record financial transactions, if they record them at all.

Manual bookkeeping systems have several limitations. First, they are prone to errors, omissions, and manipulation. Second, they make it difficult to produce timely and accurate financial reports. Third, they limit the ability to analyze financial data, track trends, or conduct budget variance analysis. Fourth, they are vulnerable to loss or damage, with no backup or recovery mechanisms. Fifth, they make it difficult to share financial information with oversight bodies or the public.

The literature on PFM reform in fragile states emphasizes the importance of appropriate technology, noting that IT solutions should be aligned with broader institutional adjustments rather than relying solely on technology to solve systemic issues (Heidenhof et al., 2002). In Somalia's district context, the lack of reliable electricity, internet connectivity, and IT skills limits the feasibility of advanced financial management systems. However, basic electronic bookkeeping using offline spreadsheets or simple accounting software could significantly improve record-keeping and reporting, even in low-capacity environments.

The persistence of manual bookkeeping reflects both resource constraints (lack of computers, software, training) and institutional factors (lack of standardized procedures, limited demand for financial information, weak oversight). Addressing this challenge requires a sequenced approach that begins with standardizing chart of accounts and financial reporting formats, then introduces basic electronic tools as capacity and infrastructure improve.

5.4 PFM System Strength Index: Variation and Patterns

While the overall picture is one of severe PFM weakness, there is some variation across districts. Table 3 presents the PFM System Strength Index scores for each of the 15 districts, grouped by Federal Member State.

Table 3: PFM System Strength Index Scores by District

Federal Member State	District	Index Score (out of 24)
Puntland	District A	7
	District B	5
	District C	4
	District D	3
Hirshabelle	District E	6
	District F	4
	District G	2
Galmudug	District H	5
	District I	3
South West	District J	8
	District K	4
	District L	2
Jubaland	District M	3
	District N	2
	District O	1
Mean		3.47
Median		3
Range		1-8

Source: IPFS district PFM assessment, 2025-2026

Several patterns emerge from this variation. First, districts in Puntland and South West tend to score slightly higher than those in other FMS, reflecting longer periods of relative stability and more sustained engagement with PFM reform at the FMS level. Second, urban districts tend to score higher than rural districts, reflecting greater revenue bases, better infrastructure, and more access to technical support. Third, districts with recent donor-funded capacity-building projects tend to score higher, though the effects are often temporary and fade when projects end.

However, even the highest-scoring districts (7-8 points) have only one-third of the basic PFM elements in place, indicating that no district has achieved a minimum viable PFM system. The variation suggests that progress is possible even in challenging environments, but that sustained improvement requires addressing the underlying structural, institutional, and political economy constraints identified in the three-gaps framework.

5.5 Accountability Weaknesses: Limited Transparency and Oversight

The audit and oversight dimension of the PFM System Strength Index reveals particularly severe weaknesses. Only 1 of 15 districts has any form of internal audit function, and only 2 districts have been subject to external audit in the past three years. Even in these cases, audit reports were not shared with district councils or the public, and no evidence was found of action taken on audit findings.

The absence of audit and oversight mechanisms reflects several factors. First, Somalia's supreme audit institution, the Office of the Auditor General, has limited capacity and focuses primarily on federal and FMS-level entities, with no systematic program for district-level audits. Second, district councils, where they exist, lack the technical capacity and political independence to conduct effective oversight. Third, civil society organizations and media have limited presence and capacity at the district level, particularly in insecure areas. Fourth, citizens have limited access to financial information and few channels for raising concerns or demanding accountability.

The literature on social accountability in developing countries shows that transparency and citizen engagement can improve governance and service delivery, but that effectiveness depends on institutional capacity, political will, and enabling environments (Fox, 2015; World Bank, 2005). In Somalia's district context, these conditions are largely absent. Participatory budgeting and social accountability mechanisms, which have shown positive impacts in other developing countries (Wampler et al., 2019; Goncalves, 2014), are not practiced in any of the sample districts.

Table 4 summarizes the accountability mechanisms present in the sample districts.

Table 4: Accountability Mechanisms in Sample Districts

Accountability Mechanism	Districts with Mechanism	% of Sample
District council or equivalent body	11	73%
Council reviews budget	5	33%
Council reviews financial reports	2	13%
Public budget hearings or consultations	0	0%
Financial information publicly disclosed	1	7%
Citizen complaint mechanism	3	20%
Internal audit function	1	7%
External audit conducted (past 3 years)	2	13%
Audit reports shared with council	1	7%
Audit reports shared with public	0	0%
Action taken on audit findings	0	0%

Source: IPFS district PFM assessment, 2025-2026

The weakness of accountability mechanisms has several consequences. First, it creates opportunities for corruption and mismanagement, as financial transactions are not subject to effective oversight. Second, it undermines citizen trust in government, as people have no way to verify how their taxes and fees are used. Third, it limits learning and improvement, as there is no systematic feedback on PFM performance. Fourth, it makes districts ineligible for results-based financing or other accountability-oriented funding mechanisms.

Strengthening accountability at the district level requires a multi-pronged approach. This includes expanding audit coverage, building district council capacity for oversight, introducing participatory budgeting and public disclosure mechanisms, and supporting civil society and media engagement. However, these reforms must be sequenced appropriately, beginning with basic transparency measures (such as public posting of budgets and financial reports) before progressing to more sophisticated accountability mechanisms.

5.6 Political Economy Constraints: Patronage, Clan Dynamics, and Elite Capture

Qualitative interviews reveal that political economy factors—patronage networks, clan dynamics, and elite capture—significantly shape district PFM outcomes. These factors operate through several mechanisms:

Appointments and staffing: District commissioners and key finance staff are often appointed based on clan representation and political loyalty rather than technical competence. Interviewees in 12 of 15 districts reported that appointments are negotiated through clan bargaining or political deals, with limited transparency or merit-based selection. This creates a workforce with limited PFM skills and weak accountability to citizens.

Revenue collection: In 9 of 15 districts, revenue collection is conducted by individuals with clan or political connections rather than trained civil servants. These collectors may retain a portion of revenues as informal compensation, remit revenues irregularly, or favor certain taxpayers based on clan or political ties. The literature on revenue mobilization in Africa shows that tax compliance is often low due to lack of confidence in local government and that revenue systems are characterized by arbitrariness, coercion, and corruption (Fjeldstad et al., 2012; Kjær et al., 2015).

Expenditure decisions: Budget decisions, where formal budgets exist, are often overridden by informal negotiations. Interviewees in 10 of 15 districts reported that expenditure priorities are determined through clan consultations, political negotiations, or directives from FMS governments rather than formal budget processes. This reflects the rule-practice gap, where formal PFM rules are inconsistently implemented or ignored due to weak rule of law and patrimonial relationships (Haque, 2018).

Procurement: Procurement processes, where they exist, are vulnerable to elite capture. Interviewees in 8 of 15 districts reported that contracts are often awarded to politically connected suppliers or clan members rather than through competitive processes. This is consistent with the literature on elite capture in Africa, which shows that local elites often capture development resources through leveraging development rents, using symbolic activities to maintain donor relations, and structuring membership along family, ethnic, and clientelist lines (Nygaard, 2008).

Traditional authorities: Traditional authorities—clan elders, religious leaders—play significant roles in district governance, sometimes complementing and sometimes competing with formal district administrations. In 11 of 15 districts, interviewees reported that traditional authorities are involved in revenue collection, dispute resolution, or resource allocation decisions. The literature on elite capture shows that traditional authorities can be co-opted by local elites and that informal institutions can facilitate elite capture, particularly in remote areas with weak state capacity (Musgrave et al., 2016; Wong, 2010).

These political economy constraints are deeply entrenched and cannot be addressed through technical PFM reforms alone. However, they are not immutable. The literature on countering elite capture suggests several strategies: strengthening accountability mechanisms at both local and national levels, securing alternative livelihoods for the poor to break patron-client dependence, maintaining power-sensitivity in reform interventions, and expanding political legitimacy to include traditional institutions while applying principles of participation and accountability (Crook, 2003; Wong, 2010; Musgrave et al., 2016). In Somalia's district context, these strategies must be adapted to the clan-based political system and the legacy of state collapse.

5.7 Climate Shocks and Fiscal Fragility

Qualitative interviews reveal that climate shocks—droughts, floods, locust infestations—have profound impacts on district fiscal capacity and service delivery. Interviewees in all 15 districts reported experiencing significant climate-related disruptions in the past three years, with droughts being the most common shock (reported in 13 districts), followed by floods (9 districts) and locust infestations (6 districts).

Climate shocks affect district finances through several channels:

Revenue impacts: Droughts disrupt pastoralist livelihoods and reduce market activity, directly impacting district revenues from market fees and livestock taxes. Interviewees in 11 of 15 districts reported that revenues decline by 20-50% during drought periods. Floods damage infrastructure and displace populations, reducing economic activity and revenue collection. The literature on fiscal resilience shows that natural disasters can complicate subnational governments' ability to address adaptation needs and that fiscal decentralization can lead to fewer disaster-related deaths when properly designed (Martinez-Vazquez, 2021).

Expenditure pressures: Climate shocks create urgent expenditure needs—emergency relief, infrastructure repair, health response—that exceed district fiscal capacity. Interviewees in 10 of 15 districts reported that climate-related expenditures consume 30-60% of annual budgets during shock periods, crowding out routine service delivery. Districts lack fiscal buffers—reserves, contingency funds, or access to credit—to absorb these shocks.

Displacement and urbanization: Climate-induced displacement drives rapid urbanization, straining district services and infrastructure. Interviewees in 7 of 15 districts reported significant population increases due to climate-related migration, with limited corresponding increases in revenues or service capacity. This exacerbates the assignment-resource gap and creates social tensions.

Lack of climate-responsive PFM: None of the 15 sample districts have integrated climate risk assessments into budgeting or planning. None use climate budget tagging or green budgeting tools. None have disaster risk financing mechanisms. This reflects both capacity constraints and the absence of climate-responsive PFM frameworks at the district level. The literature on climate-responsive PFM shows that implementation requires effective coordination, clear functional assignments, and capacity building, but that barriers include limited jurisdiction, inadequate legal frameworks, and competition for financial resources (Martinez-Vazquez, 2021; Mainstreaming decarbonization, 2024).

The interaction between climate shocks and fiscal fragility creates a vicious cycle. Climate shocks erode district revenues and increase expenditure needs, widening the assignment-resource gap. Weak PFM systems limit districts' ability to mobilize resources, plan for climate risks, or respond effectively to disasters. Elite capture and patronage networks may divert scarce resources away from climate adaptation and disaster response. Breaking this cycle requires building both fiscal capacity and climate resilience simultaneously, starting with minimum viable PFM systems that can function in low-capacity, high-fragility environments.

6. Discussion

6.1 The District Frontier: Where Fiscal Federalism Meets Reality

The findings demonstrate that district governments in Somalia represent the frontier of fiscal federalism—the point where constitutional principles, policy ambitions, and citizen expectations collide with the harsh realities of fiscal fragility, institutional weakness, and political economy constraints. While federal and FMS-level PFM systems have gradually strengthened over the past decade, district-level PFM remains in a state of severe underdevelopment, with mean index scores of 3.47 out of 24 indicating that fewer than one-sixth of basic PFM elements are in place.

This district-level weakness is not unique to Somalia. The literature on PFM reform in fragile states shows that interventions often concentrate on finance ministries, limiting reach to service delivery (Fritz et al., 2011), and that sub-national fiscal systems have emerged as a focus but remain understudied (Baird, 2010). However, Somalia's district-level situation is particularly severe, reflecting the combination of extremely low overall revenue mobilization (approximately 5% of GDP), the absence of a formal intergovernmental transfer system, ongoing insecurity, and deeply entrenched clan-based power structures.

The district frontier is where fiscal federalism becomes tangible for citizens. It is where budgets translate into classrooms and clinics, where taxes and fees are collected, where procurement decisions are made, and where accountability is tested in everyday interactions. Yet it is also the tier least examined in Somalia's PFM reform agenda, least supported by donors, and least equipped with the tools and capacity to fulfill its mandates. This paradox—that the tier most visible to citizens is the tier least supported—reflects a broader pattern in fragile states where reform efforts concentrate on central institutions while sub-national systems languish.

Addressing this paradox requires shifting analytical and programmatic attention to the district frontier. This does not mean abandoning federal and FMS-level reforms, which remain essential for establishing legal frameworks, coordinating fiscal policy, and providing intergovernmental transfers. Rather, it means recognizing that sustainable fiscal federalism requires building capacity at all tiers simultaneously, with sequenced reforms appropriate to each tier's institutional context and capacity constraints.

6.2 Three Gaps: Assignment-Resource, Rule-Practice, and Shock-Buffer

The three-gaps framework proposed in this article provides a structured way to understand the mutually reinforcing constraints that explain district-level PFM weakness in Somalia. Each gap reflects a different dimension of fiscal fragility, and together they create a system of constraints that is difficult to escape without coordinated, sequenced reforms.

The assignment-resource gap reflects the incomplete nature of fiscal decentralization, where expenditure responsibilities are devolved without corresponding revenue assignments or reliable intergovernmental transfers. The literature on fiscal decentralization shows that this mismatch is common in developing countries, where local governments often depend heavily on intergovernmental transfers due to limited own-source revenue capacity (Shah, 2004; Fjeldstad, 2014). However, Somalia's situation is more extreme, with no formula-based transfer system and districts almost entirely dependent on own-source revenues that average only $127,400 per year (approximately $0.85 per capita).

This gap has several consequences. First, it undermines accountability, as citizens cannot hold governments responsible for services, they lack the means to provide. The literature on fiscal decentralization emphasizes that accountability mechanisms such as citizen voice and results-oriented management are crucial for success, but that these mechanisms depend on local governments having adequate resources and discretion (Shah, 2004; Saavedra-Costas, 2009). Second, it creates incentives for informal revenue collection and rent-seeking, as district officials seek to supplement inadequate formal revenues. Third, it limits districts' ability to invest in PFM systems, staff training, or infrastructure. Fourth, it makes districts ineligible for performance-based transfers or other results-oriented financing mechanisms that require minimum PFM standards.

The rule-practice gap reflects the political economy of local governance in fragile states, where weak rule of law and patrimonial relationships mean that formal PFM rules may be inconsistently implemented or ignored. The literature on PFM reform in fragile states shows that institutional transmission mechanisms linking PFM "good practices" to improved outcomes are typically missing in these contexts, where PFM systems operate differently than in advanced economies (Haque, 2018). Increased transparency has limited impact because incentives are shaped by patronage rather than accountability.

In Somalia's district context, the rule-practice gap is evident in how appointments are made through clan bargaining rather than merit, how revenue collection is conducted by individuals with clan or political connections rather than trained civil servants, how expenditure decisions are determined through informal negotiations rather than formal budget processes, and how procurement favors politically connected suppliers. The literature on elite capture in Africa shows that these patterns reflect the pervasive influence of patronage networks, clan-based power structures, and informal institutions (Acemoglu et al., 2014; Labonte, 2012; Green, 2010).

Addressing the rule-practice gap requires more than technical PFM reforms. It requires strengthening accountability mechanisms at both local and national levels, securing alternative livelihoods for the poor to break patron-client dependence, maintaining power-sensitivity in reform interventions, and expanding political legitimacy to include traditional institutions while applying principles of participation and accountability (Crook, 2003; Wong, 2010; Musgrave et al., 2016). In Somalia's context, this means working with clan-based governance structures rather than against them, building coalitions for reform that include traditional authorities and civil society, and designing accountability mechanisms that are appropriate to the local political economy.

The shock-buffer gap reflects the intersection of climate vulnerability and fiscal fragility, where climate shocks exceed the fiscal buffers and adaptive capacity of district governments. The literature on climate-responsive PFM shows that building fiscal resilience requires mainstreaming climate considerations into PFM systems, but that this is particularly challenging at the sub-national level in fragile states where basic PFM systems are weak (Martinez-Vazquez, 2021; Mello et al., 2022). In Somalia's district context, droughts, floods, and locust infestations have profound impacts on revenues (declining by 20-50% during drought periods) and create urgent expenditure needs (consuming 30-60% of annual budgets during shock periods), yet districts lack fiscal buffers, climate risk assessments, or disaster risk financing mechanisms.

The shock-buffer gap is particularly insidious because it erodes the already thin fiscal capacity of districts, making it harder to close the other two gaps. Climate shocks reduce revenues, widening the assignment-resource gap. They create urgent expenditure needs that may be captured by elites or diverted through informal channels, exacerbating the rule-practice gap. They displace populations and strain services, increasing social tensions and political instability. Breaking this cycle requires building both fiscal capacity and climate resilience simultaneously, starting with minimum viable PFM systems that can function in low-capacity, high-fragility environments.

6.3 Minimum Viable PFM: A Sequenced Reform Strategy

The concept of "minimum viable PFM" draws on the literature on PFM reform sequencing in fragile states, which emphasizes building stable "plateaus" appropriate to local context rather than pursuing international "summits" of best practice (Peterson, 2011). Minimum viable PFM is defined as the smallest set of foundational tools and practices that can enable basic fiscal management, accountability, and service delivery in low-capacity, high-fragility environments. It is not a permanent endpoint but a necessary first step before progressing to more advanced reforms.

The literature on PFM reform in fragile states provides several insights for defining minimum viable PFM. First, reform sequencing often deviates from standard assumptions, with budget execution improving faster than formulation or accountability (Fritz et al., 2011). This suggests that minimum viable PFM should prioritize basic expenditure control and cash management before more sophisticated planning or oversight systems. Second, incremental "think small" approaches are more effective than complex projects prone to failure (Heidenhof et al., 2002). This suggests that minimum viable PFM should focus on simple, low-cost tools that can be implemented with limited technical capacity. Third, reforms should focus on existing processes and align IT solutions with broader institutional adjustments rather than relying solely on technology (Heidenhof et al., 2002). This suggests that minimum viable PFM should emphasize standardized procedures and manual systems before introducing electronic tools.

Based on these insights and the findings from Somalia's districts, this article proposes that minimum viable PFM at the district level should include six foundational elements:

1. Standardized chart of accounts: A simple, standardized classification system for revenues and expenditures that enables consistent recording and reporting across districts. This is the foundation for all other PFM functions and should be mandated by FMS governments with technical support from federal authorities.

2. Routine financial reporting: Monthly or quarterly financial reports showing revenues collected, expenditures made, and balances, using a standardized template. Reports should be shared with district councils and posted publicly, even if initially in simple formats.

3. Bank account and reconciliation: All district revenues deposited in a bank account, with regular (at least quarterly) reconciliation between bank statements and financial records. This basic cash management tool reduces opportunities for diversion and provides an audit trail.

4. Procurement register: A simple log recording all procurement transactions above a minimum threshold (e.g., $500), including supplier name, amount, date, and purpose. This basic transparency measure can be maintained manually and provides a foundation for more sophisticated procurement systems.

5. Audit pathway: Clear procedures for how financial records will be reviewed, by whom, and how findings will be acted upon. This may initially involve internal review by district councils or FMS finance officials before progressing to formal external audit.

6. Participatory disclosure: Public posting of budgets (if they exist) and financial reports in accessible locations (district offices, markets, mosques) and formats (posters, community meetings). This basic transparency measure enables citizen oversight even in low-literacy environments.

These six elements constitute minimum viable PFM because they are simple enough to implement in low-capacity environments, low-cost enough to be affordable with limited resources, and foundational enough to enable basic fiscal management and accountability. They do not require advanced IT systems, extensive training, or sophisticated technical capacity. They can be implemented with manual systems and basic administrative procedures. Yet they provide the foundation for more advanced reforms as capacity and resources grow.

The sequencing logic is important. Minimum viable PFM must come first, before more advanced reforms such as:

Formula-based intergovernmental transfers: These require minimum PFM standards to ensure that transferred funds are used effectively and accounted for properly. The literature on fiscal decentralization shows that transfer design is critical for efficiency and equity, but that transfers can create soft budget constraints and hinder accountability if local PFM systems are weak (Shah, 2004; Kolstad et al., 2006).

Performance-based financing: These mechanisms require the ability to measure and report on service delivery outputs and outcomes, which in turn requires functional PFM systems. The literature shows that results-oriented management can enhance accountability, but only when basic information systems are in place (Shah, 2004).

Integrated financial management systems (IFMIS): These require reliable electricity, internet connectivity, IT skills, and institutional capacity to maintain and use effectively. The literature emphasizes that IT solutions should be aligned with broader institutional adjustments rather than relying solely on technology (Heidenhof et al., 2002).

Sophisticated audit and oversight: These require trained auditors, clear audit standards, and institutional capacity to act on findings. The literature shows that audit and oversight are crucial for accountability, but that they are ineffective if basic financial records and reporting systems are absent (Fritz et al., 2011).

The minimum viable PFM approach is consistent with the "good enough governance" framework proposed by Grindle (2004), which argues that in low-capacity environments, reforms should focus on achieving basic functionality rather than pursuing ideal standards. It is also consistent with the "problem-driven iterative adaptation" (PDIA) approach, which emphasizes local solutions through experimentation and adaptation rather than importing best practices (Lawson et al., 2023). However, minimum viable PFM is more prescriptive than PDIA, specifying a core set of foundational elements that are necessary for basic fiscal management in any context.

6.4 Climate-Responsive PFM at the District Level

Integrating climate-responsive PFM into district fiscal governance is essential for building resilience to climate shocks, but it must be sequenced appropriately. The literature on climate-responsive PFM shows that implementation requires effective coordination, clear functional assignments, capacity building, and integration with planning (Martinez-Vazquez, 2021; Mello et al., 2022). However, in Somalia's district context, where basic PFM systems are largely absent, attempting to introduce sophisticated climate-responsive tools such as climate budget tagging or green budgeting would be premature and likely ineffective.

Instead, climate-responsive PFM at the district level should be introduced in phases, aligned with the development of minimum viable PFM:

Phase 1: Climate risk awareness (concurrent with minimum viable PFM): District officials and council members should receive basic training on climate risks, their fiscal impacts, and the importance of integrating climate considerations into fiscal planning. This awareness-building can occur concurrently with the establishment of minimum viable PFM and does not require sophisticated technical capacity.

Phase 2: Simple climate expenditure tracking (after minimum viable PFM is established): Once standardized charts of accounts and routine financial reporting are in place, districts can begin tracking climate-related expenditures using simple codes or tags. This does not require sophisticated climate budget tagging systems but simply involves identifying and recording expenditures related to climate adaptation, disaster response, or environmental management. The literature shows that climate budget tagging can be implemented at the sub-national level, but that allocations often lack clear climate-sensitive outputs/outcomes and that capacity constraints are significant obstacles (Mutiara et al., 2021; Greening PFM, 2023).

Phase 3: Climate risk integration into planning (after routine reporting and basic oversight are established): Once districts have functional financial reporting and basic oversight mechanisms, they can begin integrating climate risk assessments into multi-year plans and budget formulation. This requires technical support from FMS or federal climate agencies but builds on the planning and budgeting capacity developed through minimum viable PFM. The literature emphasizes that climate change objectives should be mainstreamed into local public planning and that integration requires incorporating a climate perspective into planning, resource allocation, and project implementation tools (Martinez-Vazquez, 2021; Eguino et al., 2024).

Phase 4: Disaster risk financing mechanisms (after intergovernmental transfers are established): Once formula-based intergovernmental transfers are in place, districts can begin accessing disaster risk financing mechanisms such as contingency funds, insurance schemes, or emergency credit lines. These mechanisms require minimum PFM standards to ensure that funds are used effectively and accounted for properly. The literature shows that fiscal decentralization can lead to fewer disaster-related deaths when properly designed, but that natural disasters can complicate subnational governments' ability to address adaptation needs (Martinez-Vazquez, 2021).

This phased approach recognizes that climate-responsive PFM cannot be built on a foundation of weak or absent basic PFM systems. It sequences climate-responsive reforms to align with the development of fiscal capacity, ensuring that each phase builds on the previous one. It also recognizes that climate risk awareness and simple expenditure tracking can begin early, even before sophisticated PFM systems are in place, providing immediate benefits in terms of improved decision-making and resource allocation.

7. Policy Recommendations

7.1 Establish Minimum Viable PFM as the Foundation

Recommendation 1: Federal and FMS governments should adopt minimum viable PFM as the explicit standard for district-level fiscal governance, mandating the six foundational elements (standardized chart of accounts, routine financial reporting, bank account and reconciliation, procurement register, audit pathway, participatory disclosure) and providing technical support and resources for implementation.

The literature on PFM reform in fragile states emphasizes that reforms should build stable "plateaus" appropriate to local context rather than pursuing international "summits" of best practice (Peterson, 2011). Minimum viable PFM represents such a plateau for Somalia's districts—a realistic, achievable standard that can be implemented in low-capacity, high-fragility environments and that provides the foundation for more advanced reforms.

Implementation should follow a phased approach:

- **Year 1:** Develop standardized chart of accounts and financial reporting templates, with input from district officials, FMS finance ministries, and federal authorities. Pilot in 3-5 districts per FMS.
- **Year 2:** Roll out standardized systems to all districts, with training for district finance staff and council members. Establish bank accounts for all districts and initiate quarterly financial reporting.
- **Year 3:** Introduce procurement registers and audit pathways, with support from FMS finance ministries and supreme audit institution. Begin participatory disclosure through public posting of budgets and financial reports.

This phased approach allows for learning and adaptation, builds capacity gradually, and ensures that each element is functioning before adding the next. It is consistent with the incremental "think small" approach recommended in the literature (Heidenhof et al., 2002) and with the problem-driven iterative adaptation (PDIA) approach that emphasizes local solutions through experimentation (Lawson et al., 2023).

7.2 Design and Implement Formula-Based Intergovernmental Transfers

Recommendation 2: Federal and FMS governments should design and implement a formula-based intergovernmental transfer system that provides predictable, adequate, and equitable funding to districts based on objective criteria such as population, poverty, and service delivery needs.

The literature on fiscal decentralization emphasizes that intergovernmental transfers are a dominant revenue source for sub-national governments in developing countries and that transfer design is critical for efficiency and equity (Shah, 2004). In Somalia's context, the absence of a formal transfer system leaves districts almost entirely dependent on own-source revenues that are grossly inadequate. Establishing a formula-based transfer system is essential for closing the assignment-resource gap and enabling districts to fulfill their service delivery mandates.

Key design principles, drawn from the literature, include:

- Predictability: Transfers should be based on a transparent formula and allocated according to a regular schedule, enabling districts to plan and budget effectively (Shah, 2012; Acharya et al., 2024).
- Adequacy: Transfer amounts should be sufficient to enable districts to provide basic services, taking into account local revenue capacity and expenditure needs (Shah, 2004).
- Equity: The formula should include equalization components that provide higher per capita transfers to poorer or more remote districts, reducing horizontal imbalances (Acharya et al., 2024; Glimeus et al., 2012).
- Simplicity: The formula should be simple and transparent, avoiding complex calculations that are difficult to understand or verify (Shah, 2012).
- Conditionality: Transfers should be conditional on districts meeting minimum PFM standards (as defined in Recommendation 1), creating incentives for PFM reform while ensuring that transferred funds are used effectively (Isman et al., 2025).

Implementation should be phased, beginning with a pilot program in one or two FMS before national rollout. The literature shows that transfer systems require careful design and that poorly designed transfers can create soft budget constraints, hinder accountability, or exacerbate inequities (Kolstad et al., 2006; Alfada, 2019). Piloting allows for testing and refinement before scaling up.

7.3 Expand Audit Coverage and Strengthen Oversight

Recommendation 3: The Office of the Auditor General, with support from FMS audit institutions, should develop a systematic program for district-level audits, beginning with districts that have achieved minimum viable PFM standards and gradually expanding coverage as capacity grows.

The literature on PFM reform in fragile states shows that audit and oversight are crucial for accountability, but that they are ineffective if basic financial records and reporting systems are absent (Fritz et al., 2011). In Somalia's district context, only 2 of 15 districts have been subject to external audit in the past three years, and even in these cases, audit reports were not shared or acted upon. Expanding audit coverage is essential for strengthening accountability, but it must be sequenced appropriately.

Key elements of a district audit program include:

Phased expansion: Begin with districts that have achieved minimum viable PFM standards (standardized chart of accounts, routine financial reporting, bank account and reconciliation), ensuring that audits can be conducted effectively. Gradually expand to other districts as they achieve minimum standards.

Simplified audit approach: Use simplified audit procedures appropriate to district-level capacity and complexity, focusing on basic compliance (are revenues deposited? are expenditures authorized? are records maintained?) rather than sophisticated performance or value-for-money audits.

Capacity building: Provide training for district finance staff on preparing for audits and for district councils on reviewing and acting on audit findings. The literature emphasizes that audit is most effective when there is institutional capacity to act on findings (Fritz et al., 2011).

•**Public disclosure:** Require that audit reports be shared with district councils and posted publicly, enabling citizen oversight. The literature shows that transparency and citizen engagement can improve governance and service delivery, but that effectiveness depends on institutional capacity and enabling environments (Fox, 2015).

•**Follow-up mechanisms:** Establish clear procedures for how audit findings will be acted upon, including corrective actions, sanctions for non-compliance, and recognition for good performance.

7.4 Introduce Participatory Budgeting and Social Accountability Mechanisms

Recommendation 4: Federal and FMS governments, with support from civil society organizations and donors, should pilot participatory budgeting and social accountability mechanisms in selected districts, adapting international models to Somalia's clan-based governance context.

The literature on participatory budgeting shows that it can improve service delivery, enhance accountability, and build trust in government, but that effectiveness depends on design, political commitment, and institutional capacity (Wampler et al., 2019; Goncalves, 2014). In Somalia's district context, participatory budgeting is not practiced in any of the sample districts, and social accountability mechanisms are largely absent. Introducing these mechanisms could help address the rule-practice gap by creating channels for citizen voice and oversight, but they must be adapted to the local political economy.

Key design considerations, drawn from the literature, include:

Clan-inclusive participation: Design participation mechanisms that work with rather than against clan-based governance structures, ensuring that all major clans and sub-clans are represented and that traditional authorities are engaged constructively (Musgrave et al., 2016).

Focus on basic services: Begin with participatory budgeting for a small portion of the district budget focused on basic services (roads, markets, water points) where citizen preferences are clear and impacts are visible (Cabannes, 2015).

Simple, accessible formats: Use simple, accessible formats for budget information and participation (community meetings, posters, radio programs) that work in low-literacy environments (Musadat, 2019).

Link to minimum viable PFM: Ensure that participatory budgeting is linked to the minimum viable PFM elements (standardized chart of accounts, routine financial reporting, participatory disclosure), so that citizens can track whether their priorities are reflected in budgets and expenditures (Wampler et al., 2024).

Pilot and adapt: Begin with pilots in 2-3 districts per FMS, learn from experience, and adapt the model before scaling up. The literature emphasizes that participatory budgeting models must be adapted to local contexts and that effectiveness varies widely (Wampler et al., 2017).

7.5 Build District Revenue Mobilization Capacity

Recommendation 5: Federal and FMS governments should support districts in strengthening revenue mobilization through simplified tax systems, improved administration, and taxpayer education, while ensuring that revenue efforts are linked to improved service delivery to build citizen trust and compliance.

The literature on domestic revenue mobilization in fragile states shows that raising revenues is a formidable challenge, with institutional quality, government effectiveness, and control of corruption significantly impacting tax performance (Akitoby et al., 2013). In Somalia's district context, own-source revenues are extremely limited, and revenue systems are characterized by arbitrariness, coercion, and corruption (Fjeldstad et al., 2012). Strengthening revenue mobilization is essential for closing the assignment-resource gap, but it must be done in ways that build rather than erode citizen trust.

Key strategies, drawn from the literature, include:

Simplify tax systems: Reduce the number of taxes and fees, eliminate arbitrary or regressive charges, and establish clear, transparent rate structures (Fjeldstad et al., 2014; Hobdari, 2025).

Improve administration: Train revenue collectors, issue receipts, deposit revenues in bank accounts, and maintain revenue records (Apollo, 2017; Fjeldstad et al., 2012).

Taxpayer education: Conduct taxpayer education campaigns explaining what taxes and fees are charged, how they are calculated, and how revenues are used (Gebrihet et al., 2023; Jallow, 2014).

Link to service delivery: Ensure that revenue mobilization efforts are visibly linked to improved service delivery, so that citizens see the benefits of paying taxes and fees (Masaki, 2016; Gebrihet et al., 2023). The literature shows that tax compliance is enhanced by trust in government and that trust is built through transparency, accountability, and effective service delivery.

Coordinate with FMS and federal levels: Clarify revenue assignments to avoid double taxation and conflict between levels of government (Kingdom et al., 2015; Takwa et al., 2020).

7.6 Integrate Climate Risk into District Fiscal Planning

Recommendation 6: Federal and FMS governments, with support from climate and disaster risk management agencies, should support districts in integrating climate risk into fiscal planning through phased introduction of climate risk awareness, simple climate expenditure tracking, and eventually climate risk assessments and disaster risk financing mechanisms.

The literature on climate-responsive PFM shows that building fiscal resilience requires mainstreaming climate considerations into PFM systems, but that this is particularly challenging at the sub-national level in fragile states where basic PFM systems are weak (Martinez-Vazquez, 2021; Mello et al., 2022). In Somalia's district context, climate shocks have profound impacts on fiscal capacity, yet climate-responsive PFM tools are absent. Integrating climate risk into district fiscal planning is essential for building resilience, but it must be sequenced appropriately.

The phased approach outlined in Section 6.4 should be followed:

Phase 1 (concurrent with minimum viable PFM): Provide basic training on climate risks and their fiscal impacts to district officials and council members.

Phase 2 (after minimum viable PFM is established): Introduce simple climate expenditure tracking using codes or tags in the standardized chart of accounts.

Phase 3 (after routine reporting and basic oversight are established): Support districts in integrating climate risk assessments into multi-year plans and budget formulation, with technical support from FMS or federal climate agencies.

Phase 4 (after intergovernmental transfers are established): Establish disaster risk financing mechanisms such as contingency funds, insurance schemes, or emergency credit lines.

This phased approach recognizes that climate-responsive PFM cannot be built on a foundation of weak or absent basic PFM systems. It sequences climate-responsive reforms to align with the development of fiscal capacity, ensuring that each phase builds on the previous one.

7.7 Coordinate Donor Support and Avoid Fragmentation

Recommendation 7: Donors and development partners should coordinate support for district-level PFM reform through a common framework aligned with the minimum viable PFM standard, avoiding fragmented, project-based interventions that bypass district systems and undermine institutional development.

The literature on PFM reform in fragile states shows that high aid dependency creates challenges such as staff loss to donor-funded projects and fragmented support (Fritz et al., 2011). In Somalia's district context, donor support is fragmented, unpredictable, and often bypasses district PFM systems. Coordinating donor support is essential for building sustainable district fiscal capacity.

Key principles for donor coordination, drawn from the literature, include:

Align with minimum viable PFM: All donor support for district-level PFM should be aligned with the minimum viable PFM standard, supporting the establishment of the six foundational elements rather than introducing parallel systems or bypassing district institutions.

Use district systems: Donors should channel funds through district PFM systems (once minimum viable PFM is achieved) rather than creating parallel project implementation units or bypassing district budgets (Sokpor, 2014).

Coordinate technical assistance: Donors should coordinate technical assistance to avoid duplication, ensure consistency of advice, and build on each other's efforts. The literature emphasizes that fragmented technical assistance can confuse recipients and undermine reform efforts (Fritz et al., 2011).

Support government leadership: Donors should support government leadership of the reform process, recognizing that PFM is a core state function requiring full government ownership for success (Peterson, 2011).

Take a long-term view: Donors should commit to long-term support for district PFM reform, recognizing that building fiscal capacity in fragile states is a multi-year process that requires sustained engagement (Tavakoli et al., 2014).

8. Conclusion

This article has presented the first systematic assessment of district-level public financial management in Somalia, revealing a stark picture of fiscal fragility at the tier of government closest to citizens. With a mean PFM System Strength Index score of 3.47 out of 24, Somalia's districts have fewer than one-sixth of basic PFM elements in place. Only 5 of 15 districts had approved budgets, only 8 had bank accounts for district funds, and only 4 used any form of electronic bookkeeping. Audit and oversight mechanisms are largely absent, with only 2 districts having been subject to external audit in the past three years and no evidence of action taken on audit findings.

The three-gaps framework proposed in this article provides a structured way to understand the mutually reinforcing constraints that explain this weakness. The assignment-resource gap leaves districts with broad service delivery mandates but narrow and unreliable revenues averaging only $127,400 per year (approximately $0.85 per capita). The rule-practice gap means that formal PFM rules are frequently overridden by informal power networks, clan bargaining, and patronage. The shock-buffer gap means that climate shocks—droughts, floods, locust infestations—exceed the fiscal buffers and adaptive capacity of district governments, eroding already thin fiscal capacity.

These findings contribute to the literature on PFM reform in fragile and conflict-affected states in three ways. First, they shift the analytical focus from central to district-level PFM, demonstrating that the reform frontier in fragile states lies at the sub-national tier where fiscal institutions are weakest yet citizen expectations are highest. The literature has focused overwhelmingly on central government institutions (Fritz et al., 2011; Baird, 2010), but this article shows that sustainable fiscal federalism requires building capacity at all tiers simultaneously.

Second, the article integrates climate-responsive PFM into the analysis of sub-national fiscal governance, showing how climate shocks interact with fiscal capacity constraints to create a "shock-buffer gap" that undermines district resilience. The literature on climate-responsive PFM has focused primarily on national-level systems or on developed countries (Martinez-Vazquez, 2021; OECD, 2022), but this article extends the analysis to the district level in a fragile state context, demonstrating the need for phased introduction of climate-responsive tools aligned with the development of basic PFM capacity.

Third, the article proposes a sequenced reform framework grounded in the concept of "minimum viable PFM"—a set of six foundational tools and practices (standardized chart of accounts, routine financial reporting, bank account and reconciliation, procurement register, audit pathway, participatory disclosure) that can function in low-capacity, high-fragility environments. This framework builds on the literature's emphasis on building stable "plateaus" appropriate to local context (Peterson, 2011), incremental "think small" approaches (Heidenhof et al., 2002), and reform sequencing that deviates from standard assumptions (Fritz et al., 2011). It provides a practical roadmap for district-level PFM reform in Somalia and potentially in other fragile states facing similar challenges.

The policy implications are clear. Federal and FMS governments should adopt minimum viable PFM as the explicit standard for district-level fiscal governance, providing technical support and resources for implementation. They should design and implement a formula-based intergovernmental transfer system that provides predictable, adequate, and equitable funding to districts. They should expand audit coverage and strengthen oversight, introduce participatory budgeting and social accountability mechanisms, build district revenue mobilization capacity, integrate climate risk into district fiscal planning, and coordinate donor support to avoid fragmentation.

These reforms will not be easy. They require sustained political commitment, adequate resources, technical capacity, and coordination across multiple actors and levels of government. They must navigate the complex political economy of clan-based governance, patronage networks, and elite capture. They must be sequenced appropriately, building foundational capacity before introducing more advanced systems. But they are essential for realizing Somalia's vision of fiscal federalism, for building citizen trust in government, for improving service delivery, and for building resilience to climate shocks.

The district frontier is where fiscal federalism meets reality. It is where constitutional principles and policy ambitions are tested in everyday interactions between citizens and government. It is where the promise of decentralization—bringing government closer to the people, matching services to local needs, enhancing accountability—can be realized or betrayed. Somalia's districts are currently failing this test, not because of lack of effort or commitment by district officials, but because they lack the fiscal resources, institutional capacity, and political support to succeed. Addressing this failure requires shifting attention and resources to the district frontier, building minimum viable PFM as the foundation for sustainable fiscal federalism.

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