Optimizing Public Financial Management in Somalia: Delegation, Autonomy, and Strategic Focus for Sustainable Economic Growth

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Dr. Mohamed Ibrahim Nor (Ph.D.)
SIMAD University
M.ibrahim@simad.edu.so

Abstract:

The management of a country's finances is crucial for economic stability and growth. The Finance Minister plays a pivotal role in shaping fiscal policies, mobilizing revenue, and ensuring effective resource allocation. This commentary argues that the Minister should focus on key areas for optimal financial management, including mobilizing domestic revenue, finalizing the federalization of the public financial architecture, developing a sustainable financial strategy, and collaborating with the Central Bank on economic development. Mobilizing domestic revenue involves enhancing tax collection and compliance. Finalizing the federalization process ensures transparent fiscal structures and balanced state development. Developing a sustainable financial strategy includes managing public debt and minimizing fiscal deficits. Collaborating with the Central Bank promotes monetary policies that foster stability and economic growth. Delegating payment processing and liquidity management tasks to specialized institutions allows the Minister to concentrate on strategic matters. Maintaining the autonomy and independence of institutions such as the Accountant General, Auditor General, and Central Bank is crucial for transparency and accountability. Segregation of duties mitigates fraud and errors in financial management. Enhancing financial governance through robust regulatory frameworks and risk management systems is essential for stability and investor confidence. Ensuring the autonomy and independence of integrity institutions fosters a fair and just society while preventing abuses of power. By focusing on these aspects, Somalia can achieve economic stability and long-term growth.

Keywords: financial governance, delegation of tasks, autonomy and independence, revenue mobilization, segregation of duties

1. Introduction:

The management of a country's finances is a critical task that directly impacts its economic stability and growth (Cuadrado-Ballesteros & Bisogno, 2021; Mosteanu & Faccia, 2020). The Finance Minister responsible for overseeing the nation's finances plays a pivotal role in shaping fiscal policies, mobilizing revenue, and ensuring the effective allocation of resources (Allen et al., 2016). However, striking a balance between the Minister's involvement in day-to-day public finance activities and their strategic responsibilities is crucial for optimal financial management. This article argues that the Minister should focus on key areas that are fundamental to the country's economic well-being. These areas include mobilizing domestic revenue, finalizing the federalization of the public financial architecture, developing a sustainable financial strategy following the completion of the debt relief process, and collaborating with the Central Bank on developing key driving forces for economic development. By prioritizing these areas, the Minister can effectively contribute to economic stability and foster long-term growth.

Mobilizing domestic revenue is a primary responsibility of the Minister (Allen et al., 2016). This involves implementing policies and measures to enhance tax collection, reduce tax evasion, and promote compliance (Akepe, 2023). A robust revenue mobilization framework enables the government to fund essential public services and investments, which are crucial for socioeconomic development (Cherrier, 2014). Furthermore, the Minister's involvement in finalizing the federalization of the public financial architecture is imperative. This process entails decentralizing financial responsibilities and ensuring effective coordination between central and state governments. By establishing transparent and accountable fiscal structures, the Minister can empower local authorities to manage their finances efficiently, thereby promoting balanced state development (Zhang et al., 2021). In addition to the above, the Minister must develop a sustainable financial strategy following the completion of the debt relief process. This involves carefully managing public debt, minimizing fiscal deficits, and formulating prudent borrowing policies (Presbitero, 2009). A sound financial strategy not only strengthens the country's creditworthiness but also safeguards against economic vulnerabilities (Bowsher, 1985).

Collaborating with the Central Bank on developing key driving forces for the national economy is another crucial aspect of the Minister's role. The Minister and the Central Bank can work together to formulate monetary policies that promote price stability, control inflation, and facilitate economic growth. This collaboration ensures a coordinated approach towards achieving macroeconomic objectives and fosters investor confidence (Kandil & Mirzaie, 2021). To effectively fulfill these strategic responsibilities, the Minister should delegate payment processing and liquidity management to appropriate institutions. By entrusting these operational tasks to specialized entities, the Minister can focus on policy formulation, oversight, and strategic decision-making. This delegation allows for a more efficient and effective allocation of the Minister's time and resources.

2. Delegating Operational Tasks for Effective Public Financial Management:

The Minister's involvement in the intricacies of payment processing and liquidity management is deemed unnecessary. The Office of the Accountant General, which specializes in financial compliance and administration, can effectively manage these operational aspects[1]. By entrusting these responsibilities to the dedicated professionals in the Office of the Accountant General, the Minister can ensure that the necessary level of autonomy and independence is maintained. This delegation allows the Minister to focus his/her attention on more strategic aspects of public financial management, such as policy formulation, fiscal planning, and economic development, which require their expertise and decision-making abilities (Allen et al., 2016).

Additionally, the Treasurer and the central bank possess the requisite knowledge, expertise, and resources to handle liquidity management of government funds. With their deep understanding of the financial sector and monetary policies, they are well-equipped to effectively manage the cash flow and ensure optimal utilization of government funds. By delegating liquidity management to these specialized entities, the Minister can rely on their expertise and capacity, freeing up his/her time and energy to concentrate on strategic financial matters that have a broader impact on the nation's economy. This division of labor allows for a more efficient and streamlined approach to public financial management, enhancing the overall effectiveness of the Minister's role in shaping the country's financial landscape (Ahinsah-Wobil, 2021).

3. Maintaining Autonomy and Independence:

[1] https://oag.treasury.gov.za/Pages/default.aspx

Granting the Office of the Accountant General the same privileges, as other integrity institutions, such as the Auditor General and the Central Bank, is crucial for promoting transparency and accountability in our public financial management as stipulated in article 10 of the PFM Act[2]. Granting autonomy and independence to the Accountant General's office strengthens its credibility and effectiveness in upholding financial compliance standards. When the office operates independently and is free from undue influence, it can carry out its responsibilities objectively and without bias, ensuring that financial transactions are conducted ethically and in accordance with established regulations (see article 32 of the PFM Act)[3].

By aligning the mandate of the Accountant General's office with other key institutions, a cohesive and comprehensive financial governance framework can be established. This alignment ensures consistency and coordination across various aspects of financial oversight and regulation. The Accountant General, alongside the Auditor General and the Central Bank governor, can work synergistically to ensure the integrity of financial reporting, detect any irregularities or financial misconduct, and enforce appropriate measures to promote accountability. This collaborative approach not only enhances the overall effectiveness of financial governance but also fosters public trust in the system, as it demonstrates a commitment to maintaining high standards of transparency and accountability in managing public finances (Armstrong, 2005; Kim, 2010).

4. Segregation of Duties:

Segregation of duties is a crucial accounting principle that promotes transparency and mitigates the risk of fraud or errors in financial management (Kiradoo, 2008; Ndanyi, 2021). One key aspect of segregation of duties is the separation of responsibilities for revenue collection and control from those of the payment processing and liquidity management. It is essential to ensure that separate individuals within the government structure manage these functions. This separation of roles enhances accountability and reduces the likelihood of financial improprieties, as it introduces checks and balances into the system (Babalola, 2020; Ndanyi, 2021).

To uphold the principle of segregation of duties, the Office of the Accountant General should operate independently and autonomously from the ministry of finance, ensuring that there

[2] https://mof.gov.so/legislation/sharciga-maaraynta-maaliyadda-guud-sharci-lr17-2019
[3] https://mof.gov.so/legislation/sharciga-maaraynta-maaliyadda-guud-sharci-lr17-2019

is no conflict of interest or concentration of power. This division of responsibilities not only minimizes the potential for errors or intentional misappropriation but also strengthens the government's overall public financial management practices.

By adhering to segregation of duties, the government demonstrates its commitment to maintaining the highest standards of financial integrity and accountability (Eton et al., 2022). This adherence fosters public trust in the management of public finances, as it assures citizens that appropriate safeguards are in place to prevent fraudulent activities and ensure accurate reporting. The segregation of duties serves as a safeguard against financial mismanagement, providing assurance to stakeholders and the general public that the government is committed to responsible fiscal practices (Eton et al., 2019; Frazer, 2020).

5. Enhancing Financial Governance:

Enhancing financial governance is a critical aspect of fostering transparency, accountability, and stability in any country's economic system. It involves implementing effective measures, policies, and practices to ensure the proper management, oversight, and regulation of financial institutions, markets, and transactions (Fourie, 2007). By enhancing financial governance, nations strive to mitigate risks, prevent financial improprieties, and create an environment that promotes investor confidence, economic growth, and sustainable development (Fourie, 2012).

Strong financial governance encompasses various key elements, including robust regulatory frameworks, independent oversight bodies, transparent reporting mechanisms, and effective risk management systems (Nzewi & Musokeru, 2014). It aims to prevent fraud, corruption, and unethical practices, while also promoting fairness, integrity, and compliance within the financial sector (Fourie, 2007; Nzewi & Musokeru, 2014). Moreover, enhanced financial governance enables governments to make informed decisions, allocate resources efficiently, and effectively manage public finances (Fourie, 2012; Nzewi & Musokeru, 2014).

In today's interconnected global economy, financial governance cannot be overemphasized (Helleiner, 2014). Sound financial governance practices are crucial for maintaining financial stability, attracting investments, and ensuring markets function properly (Santiso, 2007). They contribute to building a resilient and sustainable financial system that can withstand economic shocks and support long-term economic growth. Therefore, governments and financial authorities must continually assess and strengthen their financial governance frameworks to adapt to evolving challenges and maintain stakeholders' trust and confidence in their economies (Helleiner, 2014; Santiso, 2007).

In the context of Somalia, public financial management practitioners have raised serious concerns regarding the Finance Ministry's current approach of limiting the independence and operational autonomy of crucial financial institutions. One of the institutions affected by this practice is the Office of the Accountant General, which plays a pivotal role in maintaining transparent and efficient financial systems. By not granting it sufficient independence, the Finance Ministry may impede the office's ability to carry out its responsibilities effectively, potentially leading to issues such as mismanagement of public funds and lack of accountability.

Another key financial institution affected by this trend is the procurement authority. With limited independence and operational autonomy, the procurement authority may face challenges in conducting fair and competitive procurement processes. This could result in a lack of transparency, increased risk of corruption, and inefficiencies in public procurement, ultimately compromising the effective utilization of public funds. The concerns raised by practitioners emphasize the need for a more independent procurement authority that can operate with integrity and ensure the best value for public resources.

The revenue authority is yet another institution impacted by the Finance Ministry's practice. A revenue authority with inadequate independence and operational autonomy may face difficulties in effectively collecting taxes, enforcing tax laws, and combating tax evasion (Kiunsi, 2021; Therkildsen, 2004). This can lead to revenue leakage, reduced government income, and hindered economic development. Public financial management practitioners argue that granting greater independence to the revenue authority would enhance its ability to implement robust tax administration systems and maximize revenue collection, ultimately benefiting the country's fiscal health and development prospects.

6. The Essential Role of Autonomous National Integrity Institutions:

The autonomy and independence of national integrity institutions and their respective heads play a crucial role in maintaining checks and balances within our country's governance structure. These institutions, which include the prosecutor general, solicitor general, auditor general, accountant general, and central bank governor, are key pillars in upholding transparency, accountability, and the rule of law. By ensuring their independence, we create a system free from undue influence, political pressure, or corruption, thus promoting a fair and just society.

Respecting and providing proper protocol to these integrity institutions is not merely a formality but a reflection of the respect and etiquette of our government. These institutions are entrusted with the responsibility of safeguarding our nation's finances, legal processes, and governance systems. Their autonomy ensures they can operate without bias or interference, fostering public trust and confidence in our government's integrity. By upholding the autonomy of these institutions and their heads, we demonstrate our commitment to good governance. We also strengthen our country's reputation, both domestically and internationally.

Furthermore, the autonomy and independence of these integrity institutions are essential for preventing power concentration and fostering a system of checks and balances (Head, 2012). These institutions act as a counterforce to potential abuses of authority(Head, 2012). This ensures that decisions are made in the best interests of the country rather than for personal or political gain (Head, 2012). The heads of such institutions, empowered by their autonomy, can carry out their duties with integrity, impartiality, and professionalism[4]. This contributes to the overall stability and development of our nation. It creates an environment conducive to economic growth, social justice, and the protection of individual rights and freedoms.

7. Conclusion:

In conclusion, the management of a country's finances is a critical task that directly impacts its economic stability and growth. The Finance Minister, as a key figure responsible for overseeing the nation's finances, plays a pivotal role in shaping fiscal policies and ensuring the effective allocation of resources. However, striking a balance between their involvement in day-to-day public finance activities and their strategic responsibilities is crucial for optimal financial management. By focusing on key areas such as mobilizing domestic revenue, finalizing the federalization of the public financial architecture, developing a sustainable financial strategy, and collaborating with the Central Bank on economic development, the Minister can effectively contribute to economic stability and foster long-term growth. By adhering to principles of

[4] https://www.forgov.qld.gov.au/employment-policy-career-and-wellbeing/public-service-values-and-conduct/public-service-code-of-conduct/integrity-and-impartiality

autonomy, independence, delegation of operational tasks, and segregation of duties, countries can enhance financial governance, promote transparency and accountability, and strengthen their overall public financial management practices. These measures not only inspire public trust but also pave the way for sustainable economic development and prosperity.

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