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COVER PAGE

THE IMPACT OF TAXATION POLICIES ON ECONOMIC GROWTH IN KISMAYO, SOMALIA.

A RESEARCH PROPOSAL SUBMITTED TO THE COLLEGE OF PUBLIC ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR DEGREE OF BUSINESS ADMINISTRATION (BBA).

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CHAPTER ONE

INTRODUCTION

1.0 OVERVIEW

This chapter consists of a background of the study, the problem of the study, the purpose of the study, the research objectives, the research question, the scope of the study, the significance, and the conceptual framework.

1.1 BACKGROUND OF THE STUDY

The main challenge of national governments worldwide is to continually increase the welfare of its people through the implementation of appropriate economic policies and programs. Governments attempt to achieve this national objective by providing public goods, such as roads infrastructures and public services such as education, security, health, sanitation among others, hence forming the economic and social infrastructure. The adequacy of such infrastructures is a firm foundation for a country's economic growth and development. If possible, all public expenditures should contribute to the creation and promotion of an empowering domestic economic environment for local and foreign investments, boost both local and international trade; attract tourists and other foreign visitors, increase agricultural productivity; and boost craftsmanship and small-scale industrial production. All these economic activities generate productive employment and hasten economic growth and development in the short, medium and long terms. (Ogbonna and Ebimobowei, 2012).

What public policies can be effective for improving economic growth performance is a critically important issue at the national and international levels. The general well-being of the population and the prospects for poverty reduction are intimately related to economic growth. Moreover, the issue of potential growth is at the heart of recent discussions on stabilization policy. Different public policies are being applied to boost growth and to reduce poverty in different regions of the world, but fiscal policies have become the most common and relevant instruments in the toolkit of policy-makers (Tanzi and Zee, 1997). Over the past decades growth rates in the world have varied greatly. The Asian tigers have been among the top performers, with average per-capita growth rates of over 5.5 percent between 1960 and 2010. On the other hand, many countries in Latin America have recorded less than 1.0 percent growth during the same period. This comparison becomes important as both regions had a similar departing point in 1960. However, Latin America has performed relatively well over the past crisis, with growth rates of about 4–5 percent in 2011.1 Fiscal policy remains one of the most powerful tools to address the objectives of enhanced economic growth and poverty reduction in Latin America mainly due to its potential to correct market failures and increase the benefits of redistribution policies. As Tanzi and Zee (1997) and Fu, Taylor, Yücel, et al. (2003) argue, the most relevant channels through which fiscal policy can affect growth are taxation and public expenditures. While the effect of public expenditures seems to be fairly positive for growth and poverty reduction, the effect of tax policy in general tends to be ambiguous. As a matter of fact, there is no compelling evidence regarding the effect of different tax instruments for Latin American countries. (Ogbonna and Ebimobowei, 2012),

In Globally; Germany's taxation system plays a crucial role in shaping its economic growth. It includes a combination of direct and indirect taxes, such as corporate income tax, personal income tax, value-added tax (VAT), and a trade tax imposed by municipalities. The system is progressive, particularly for personal income, with rates increasing alongside income levels. Corporate taxes, including additional surcharges and trade tax, result in an effective tax rate of around 30%, which is relatively high compared to some other developed countries.

The positive impact of taxation on economic growth in Germany can be seen through its ability to fund essential public services such as infrastructure, healthcare, and education. These investments contribute to a strong foundation for long-term economic performance. In addition, taxation helps reduce income inequality through redistribution, supporting social cohesion and stability. The German government also uses tax policy to encourage research and development, green energy adoption, and innovation, which are vital for competitiveness. (Development), 2000)

On the other hand, the high tax burden in Germany has certain negative effects on growth. High corporate and personal tax rates may discourage foreign and domestic investment, and potentially reduce incentives to work or take entrepreneurial risks. Businesses often face complex tax rules and administrative burdens, which can raise operational costs and limit efficiency. Labor market activity may be affected if high marginal tax rates reduce take-home pay or incentives for workforce participation.

Germany has introduced several reforms to address these concerns. These include efforts to simplify the tax system, digitalize tax administration, and implement environmentally focused taxation such as carbon pricing. The country also supports international tax cooperation, including the OECD’s global minimum tax agreement, to prevent tax avoidance by multinational corporations.

Research from institutions like the OECD, IMF, and IFO Institute shows that well-designed tax systems with moderate rates and efficient public spending can support growth. For example, reducing the corporate tax rate has been projected to boost GDP by encouraging private investment. However, Germany must balance tax competitiveness with the need to fund an aging population, maintain strong public services, and respond to global economic changes. Overall, taxation in Germany influences economic growth both directly and indirectly, depending on the structure, rates, and how revenues are used. (Research, 2000)

Germany's taxation policies have evolved to balance economic competitiveness with the need to finance a strong welfare state. The structure includes taxes on income, corporations, consumption, and wealth. The corporate income tax rate, after accounting for the solidarity surcharge and local trade tax, is one of the highest among industrialized nations. Despite this, Germany has maintained a stable investment environment due to its strong legal institutions, skilled labor force, and robust infrastructure. Personal income tax is progressive, with higher earners paying up to 45%, and this supports the country’s social security programs and income redistribution efforts.

High taxes on labor and capital can influence business decisions, such as where to invest or hire, but Germany mitigates this impact through targeted incentives. Tax credits and subsidies are available for activities like research and development, environmental innovation, and energy-efficient upgrades. These incentives help offset the high overall tax burden and stimulate specific sectors crucial for long-term growth, such as technology and green energy. In particular, the government’s support for green transformation through tax benefits is positioning the economy for sustainability-driven growth. (Survey, 2002)

In Africa: According The highest ever-recorded GDP growth rates in Kenya are 9.4% and 10.8% in 1977 and 1978 respectively following the coffee boom. These rates plummeted to 3.7% in 1979 following the Middle East oil crisis which escalated the price of crude oil, but averaged 5% between 1980 and 1981, a fact attributed to increase in real investment and good performance in the agricultural sector. Between 1982 and 1984 the growth rate slowed to less than 2% partly due to 1982 coup d'etat which disrupted investment, and the severe droughts of 1983 and 1984, which crippled the agricultural sector, Trends in the 1990s were that of consistent decline reaching 0.1% in 1993 and registering a negative 0.3% in the year 2000. The decline in real investment occasioned by the uncertainty over the first multiparty elections of 1992 and the subsequent freeze on donor funding, coupled with these of the collapse of the major agricultural sub sectors, all combined to ensure this pathetic growth in GDP. The line graph below is used to illustrate the Kenya's economic growth rate for the last fifteen years. (Republic of Kenya: , 1978-1990))

For the long term, the Government enunciated some several long-term macroeconomic policy frameworks such as National Poverty Eradication Plan (NPEP) 1999-2015, Poverty Reduction Strategy Paper (PRSP) 2000-2003, Economic Recovery Strategy for Wealth and Employement Creation (ERSWEC) 2003-2010, Vision 2030 just to mention but a few on management of economy for an improved economic growth. The economic growth rate of 5.6% per year was targeted between 1986 and 2000 (Republic of Kenya 1986). While the economy stabilized and growth increased to an average slightly above 4% per year, political instability and poorly managed economic liberalization led to declining economic performance and high inflation that peaked in 1994 at an unprecedented 46%. Government austerity measures and the resumption of foreign development aid, including budgetary support, resulted in improved economic growth that was short-lived as the el nino weather phenomenon in 1997-1998 followed by drought that adversely affected agricultural and electric power production led to an economic slump that bottomed out at a recessionary contraction of -0.6% in 2000. From the year 2000, the Kenyan economy registered increasing growth partly attributable to increased investor confidence due to a government regime change in 2003 and sound economic management that included increased government expenditure on public works programs and free primary education. The upward trend in economic growth was abruptly curtailed to 1.5% in 2008 following violence and economic disruption that followed the disputed results of presidential elections of December 2007. Worse, a global economic crisis stemming from a meltdown of financial institutions in the United States, the world's largest economy by far, had an adverse impact on the domestic economy and the recovery beginning 2009 to date was relatively modest in that year at 2.6% before rising to a more robust 5.6% in 2010. However, high petroleum and food prices in the first half of 2011 has pushed inflation beyond a single digit to 12.95 in May 2011 and the weakening of the Kenya Shilling from 78.03 to the U.S. $ at the end of 2010 to over 90 shillings in November 2011 were pointers to a gloomy prospect for the Kenya's economic (Republic of Kenya , 1986)

In Somalia: the impact of tax revenue on economic growth in Somalia and found that 49.3 percent of the variation in GDP is explained by income and corporate taxes, international trade taxes and domestic indirect taxes. The new Somalia central bank is to operate with all the prerogatives of a monetary institution, in particular the power to issue currency, regulate the banking and credit system and manage the external reserves of the Republic. However, it is handicapped by the lack of adequate human, material and financial resources. Alongside the Somali shilling, the US dollar is widely accepted as legal tender for relatively large transactions involving local trade activities. The inflationary trend is expected to lessen when the central bank takes effectively full charge of monetary policy and replaces the currency circulating, printed by the private sector. (SNDP, , 2016)

In Somalia, Public Finance Management (PFM) is not effective. In the absence of a central government apparatus and regulatory bodies, there is no formal tax policy. Businesses are not regulated or taxed, though an informal system of taxation has developed. Industries operate informally, even when they are highly profitable. Somalia has been characterized by high public expenditures by Governments, deficit financing through money printing, uncontrolled money supply and inflationary trends. The value of the Somali Shilling (SOS) is quite difficult to determine given the fluctuation of exchange rates from region to region within the Somali territory. The inflation rate is estimated to remain in the range of 300%. (Hammond, , 2007)

1.2 PROBLEM OF THE STUDY

In an ideal economic environment, taxation policies are designed to strike a balance between generating government revenue and promoting economic growth. Ideally, taxes should be equitable, efficient, and growth-friendly—encouraging investment, innovation, and productivity while ensuring that public goods and services are adequately funded. In such a setting, well-calibrated taxation contributes positively to macroeconomic stability, infrastructure development, income redistribution, and long-term sustainable growth. (OECD, 2010)

In reality, taxation policies often deviate from these ideal characteristics. Many countries face challenges such as overly complex tax systems, high tax burdens on businesses and individuals, inadequate enforcement, and poor transparency. In some developing economies, heavy reliance on indirect taxes like vat disproportionately affects low-income groups, while corporate tax rates may discourage foreign direct investment. Conversely, overly low taxes may starve public services and infrastructure of funding, stalling economic momentum. Additionally, frequent changes in tax laws can create uncertainty, deterring long-term investment. (IMF, 2000)

These misalignments have significant consequences for economic growth. High and poorly structured taxes can reduce incentives to work, save, and invest, ultimately lowering productivity and slowing GDP growth. In contrast, insufficient taxation can lead to underfunded public infrastructure, weak institutions, and rising fiscal deficits. Unstable or unpredictable tax regimes often reduce investor confidence and contribute to capital flight. Furthermore, unequal tax systems may exacerbate income inequality, which can hinder inclusive growth and social cohesion. Overall, ineffective taxation policies can become a barrier rather than a tool for economic development. (OECD, Taxation and Economic Growth., 2008)

1.3 PURPOSE OF THE STUDY

The aim of the research is to examine the impact of Taxation policies on economic Growth in Kismayo district Somalia.

1.4 RESEARCH OBJECTIVES]

1.4.1 General Objectives

The main objective of this study will be to investigate the impact of taxation on economic growth in kismayo district Jubaland state of Somalia.

1.4.2 specific objectives

- To investigate the effect of indirect tax on economic Growth in kismayo District Jubaland state of Somalia.
- To determine the impact of direct tax on economic Growth in kismayo District Jubaland state of Somalia.
- To Know the problem of non-tax revenue on economic development in kismayo District Jubaland state of Somalia.

1.5 RESEARCH QUESTIONS/HYPOTHESES

1. How To investigate the effect of indirect Tax on economic Growth in kismayo District Jubaland state of Somalia?

2. How To determine the impact of direct Tax on economic Growth in kismayo District Jubaland state of Somalia?

3. How To Know the problem of non-tax revenue on economic development in kismayo District Jubaland state of Somalia

1.6 SCOPE OF THE STUDY

1.6.1 geographical scope

this study will be conducted in kismayo Somalia

1.6.2 time scope

This study will be conducted from **April to Jun 2025**.

1.6.3 content scope

this study will be focused on the impact of taxation policies on economic growth in kismayo Somalia

1.7 SIGNIFICANCE

This study will also help in shaping and providing a better understanding to citizenries how to the impacted taxation on economic and its contribution to the economy. More so, it will help other researchers to carry out further research on this subject area.

- The results will help government and policy makers in policy making; local private institutions, civil society organizations, international and local organizations.
- It will contribute to spread this innovative concept "The impact of taxation on economic Growth in kismayo district Jubaland state of Somalia
- It will help giving some concrete actions that can enable its development in the area of economic Growth through Taxation.
- The study also helps for private and non-government sector development, and importantly brings the benefits of the development efforts to the citizens.
- It also helps to other researchers who are going to conduct research in this field.

1.8 CONCEPTUAL FRAMEWORK

INDEPENDENT VARIABLE (IV) **DEPENDENT VARIABLE (DV)**

Taxation Policies **Economic Growrh**

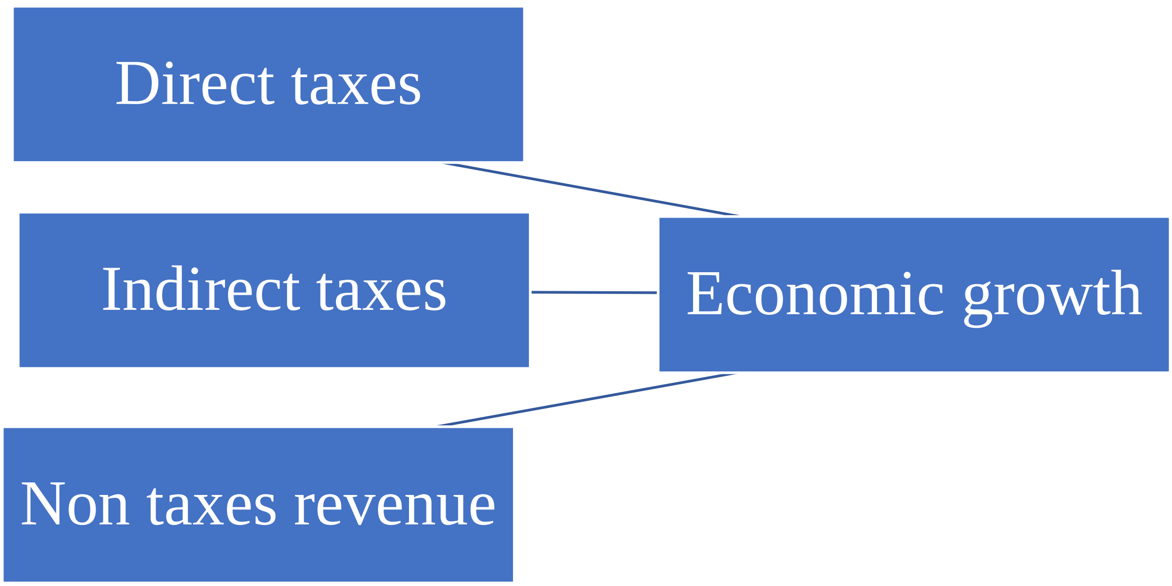


Figure 1. Conceptual framework.

CHAPTER TWO

Literature Review

2.0 OVERVIEW

This chapter reviews the related literature to the aim of this study, which was to assess the impact of taxation on economic Growth in kismayo, Somalia. The review is done in accordance with the objectives of this study. The literature was obtained from e-journals, reports, textbooks and paper presentations from university libraries and document centers. The literature will be based on the specific objectives of the study. This research work focuses on the impact of taxation on economic development in Somalia Therefore, the study connects each objective and its literature review separately discussions in order to get adequate reasoning before running statistical package.

2.1 THE EFFECT OF INDIRECT TAX ON ECONOMIC GROWTH IN KISMAYO DISTRICT JUBALAND STATE OF SOMALIA.

Indirect taxes can have a positive impact on economic growth by providing governments with a stable and predictable source of revenue. This revenue, when efficiently allocated, can be used to finance public goods such as infrastructure, education, and healthcare, which in turn stimulate economic development. Moreover, because indirect taxes are consumption-based, they do not directly penalize savings or investment, which are key drivers of long-term economic growth. This is particularly important in economies seeking to enhance private sector investment and expand industrial capacity. (Acosta-Ormaechea, S., & Yoo, J, 2012)

However, the regressive nature of indirect taxes can have adverse effects on income distribution and consumption patterns. Since lower-income households tend to spend a larger proportion of their income on consumption, indirect taxes can disproportionately affect them, potentially reducing aggregate demand and thereby dampening economic growth in the short run. This impact can be particularly pronounced in economies where a significant portion of the population lives near the poverty line. (Arnold, 2008)

In addition, the structure and rate of indirect taxes can influence production costs and price levels. Higher indirect taxes on inputs or final goods can increase the cost of production, reduce competitiveness, and lead to inflationary pressures. This could discourage both domestic and foreign investment, thereby affecting productivity and growth negatively.

In light of these dynamics, the overall effect of indirect taxes on economic growth depends significantly on the efficiency of tax administration, the broader fiscal policy environment, and the extent to which tax revenues are reinvested into growth-enhancing public expenditures. Countries that manage to strike a balance between efficient tax collection and equitable tax burden distribution tend to realize better outcomes in terms of both revenue mobilization and sustainable economic growth. (OECD, Tax Policy Reform and Economic Growth. OECD Tax Policy StudiesT, 2010)

2.2 IMPACT OF DIRECT TAX ON ECONOMIC GROWTH

Direct taxes are levied on individuals and institutions according to their income levels, the debtor of which is also the same on this subject as the borrower, and the taxpayer cannot pass his tax burden to others. Examples of direct taxes are income tax and corporation tax. Direct taxes consisting of income tax, property tax and corporate tax, indirect taxes consisting of domestic and foreign exchange taxes have different functions and impacts on economies. Direct taxes result in high income groups that are inclined to high savings and investment, as well as low marginal consumption propensity. On the other hand, for lowincome groups, indirect taxes provide consequences. The basic purpose of taxation is to generate resources to cover both developed and developing countries ' public expenses. (Paper, 2017) Engen and Skinner (1996) demonstrated that long-term economic growth is affected by taxes at moderate levels. But this moderate effect on living standards can have a large cumulative effect. Lee and Gordon (2005) found that corporate tax rates have a negative relationship to economic growth and that there is no connection between manpower-related tax rates and economic growth by analyzing 27-year data set from 70 countries between 1970 and 1997. In the research of Anastassiou and Dritsaki (2005) for Greek economy, the relationship between economic growth and tax revenue for the period 1965-2002 was checked. There are relationships between total tax revenue, marginal direct tax rates, savings income levels, and long-term economic development, according to their findings. They identified a one-way causal relationship to short-term economic growth from total tax revenue and marginal direct tax level Durkaya and Ceylan (2006) studied the relationship between tax revenue and economic growth for Turkey and used the co-integration method of Engle-Granger to search for long term relationships between direct and indirect tax revenue and economic growth. For the years 1980-2004, the Vector Error Correction Model (VECM) and the Granger causality test were used to investigate short-term relationships between direct and indirect tax revenue and growth. The findings show that direct tax and growth are causally related. Temiz (2008) analyzed the relationship between 1960-2006 years of public tax revenue and economic growth. To search for long-term relationships, Temiz used the Johansen co-integration test and VECM to search for short-term relationships. The findings show that the relationship between total tax revenue and economic growth is causal in two ways. Açıkgöz (2008) used the analysis of causality and the functions of impulse-response to determine the causal relationship between tax types and economic growth.(Paper, 2017). The findings are that from the rate of economic growth to the proportion of direct tax revenue in total tax revenue and the proportion of indirect tax revenue in total tax revenue, the direction of casual relationships is. In addition, a one-way causal relationship has also been reported from direct tax burden (proportion of direct tax revenue to GDP) to growth rate (Sarajevo, 2012). Many empirical studies appear to be concerned primarily with understanding the effect on economic growth of changes in the tax revenue system and, secondly, the impact of each type of tax on economic growth. There are many empirical studies that describe the effect of direct or indirect taxes on economic growth through economic models as a concern that the structure and rate of tax revenue are part of a country's fiscal policy aimed at contributing to stability, increasing public income, maintaining public expenditure, financing investments made by the governments, And lead to economic growth as a consequence.(Bâzgan, 2018) A recent empirical study conducted by Dasislava (2017) established an econometric model for the period 1996-2013 based on regression over a pooled panel data on EU-28.The econometric model showed that production taxes and import taxes have a greater positive effect on economic growth than property taxes that are economic growth-neutral. Individual taxes also have a positive impact on economic growth, but contribute less than the taxes applied to exports, as an example. The econometric study used the Gross Domestic Product ("GDP") growth rate as a dependent variable and as independent variables: total government spending, total tax revenue, social contributions, and budget balance. (Bâzgan, 2018) Mura (2015) applied an empirical model to study the impact of the tax structure over the 1995-2012 period on the evolution of economic growth based on panel series related to six Eastern European countries. In particular, the study is based on the effect on economic growth of the different dynamics of tax revenue (direct and indirect taxes as a percentage of total tax revenue). Empirical output suggested that direct taxes are significantly negatively correlated with economic growth, while indirect taxes generate a positive influence on economic growth's dependent variable (Bâzgan, , 2018)

2.3 IMPACT OF INDIRECT TAX ON ECONOMIC DEVELOPMENT

Indirect taxes, such as VAT, excise duties, and customs duties, play a significant role in shaping economic development. These taxes are not levied directly on income but are instead charged on goods and services, meaning that consumers bear the cost in the form of higher prices. One of the major positive impacts of indirect taxes is their contribution to government revenue. In many developing countries, indirect taxes are a primary source of funds that governments use to finance infrastructure projects, healthcare, education, and other public services. By enabling these investments, indirect taxes indirectly support long-term economic growth and human development. (Survey, 2002)

However, there are several downsides. Indirect taxes are generally regressive, as they take a larger percentage of income from the poor than from the rich. Lower-income groups spend a higher share of their income on consumption, and thus feel the burden of indirect taxes more acutely. This can worsen income inequality if not balanced by social protection programs. Moreover, high indirect taxes can lead to decreased consumer spending and increased costs for producers, which may hurt local businesses, reduce job opportunities, and slow down economic activity. In some cases, high tax rates can push economic activity into the informal sector, reducing the overall efficiency and tax base of the economy. (Acosta-Ormaechea, S., & Yoo, J, 2012)

Indirect taxes can also influence trade and investment. For example, import duties might protect local industries but can also raise the cost of imported goods and materials, affecting production costs. Additionally, sudden or unpredictable changes in indirect tax policies can create uncertainty for investors and businesses. While indirect taxes are essential for funding development, their design and implementation must be carefully managed to ensure they support inclusive and sustainable economic growth without placing undue strain on the most vulnerable populations. (OECD, Taxation and Economic Growth., 2008)

2.4 THE PROBLEM OF NON-TAX REVENUE ON ECONOMIC DEVELOPMENT

Non-tax income is characterized by exclusion: all non-tax government income may be counted as falling within this broad category. Despite its importance to fiscal policy, it is a field that has been scarcely studied, especially from a cross-country perspective, for developed economies. Non-tax revenue may include a wide variety of sources of income, such as dividends paid by government-owned companies, fees charged against the provision of public health services, road and bridge tolls, and government land and building rental income (.Mourre& Reut, , 2017).)

Analysis of the panel data is used to examine whether economic and fiscal variables can contribute to the differences between Eurozone countries in non-tax revenue. The results show that higher government spending is associated with increased use of sources of non-tax income, whereas lower tax collections are associated with higher non-tax income. Both variables can explain nearly a third of the cross-sectional variance in non-tax revenue together with the scale of financial assets held by the government. On the other hand, there are no variations in fiscal decentralization across EU Member States to clarify the non-tax revenue variability. The results show large non-observed country-fixed effects, highlighting the importance of country-specific factors and the need for country-specific complementary analysis on the nature and key determinants of non-tax receipts. The panel data analysis also revealed a statistical association between variables that could, if any, be highly endogenous with a theoretically uncertain direction of causality. Granger causality tests are used to analyze whether unidirectional causality occurs from tax receipts and government spending to non-tax revenue, and in which Member States. (Mourre & Reut, , 2017).)

2.5 ECONOMIC GROWTH

Economic growth refers to the increase in the production of goods and services in an economy over a period of time. It is usually measured by the rise in a country's gross domestic product (GDP). Economic growth indicates an improvement in the standard of living and can lead to higher employment, increased income, and poverty reduction. Growth can be driven by factors such as technological advancement, capital accumulation, labor force expansion, and improvements in productivity and infrastructure.

Sustained economic growth requires stable institutions, effective governance, sound macroeconomic policies, and investment in education and health. It can be categorized as either short-term, influenced by demand and supply conditions, or long-term, driven by structural factors like innovation and capital formation. However, while economic growth can bring significant benefits, it can also pose challenges such as income inequality, environmental degradation, and depletion of natural resources. Sustainable economic growth, therefore, emphasizes balancing progress with social and environmental responsibility. (Mankiw, 2020)

2.6 SUMMARY

Taxation is central to the current economic development agenda. It provides a stable flow of revenue to finance development priorities, such as strengthening physical infrastructure, and is interwoven with numerous other policy areas, from good governance and formalizing the economy, to spurring growth. Fundamentally, tax policy shapes the environment in which international trade and investment take place. Thus, a core challenge for African countries is finding the optimal balance between a tax regime that is business and investment friendly, and one which can leverage enough revenue for public service delivery to enhance the attractiveness of the economy. A significant share of the tax revenue increase in Africa stems from natural resource taxes, while non-resource-related revenue has increased by less than 1% of GDP over 25 years.

Taxation is intended to raise the necessary funds for public expenditure, to redistribute income, to stabilize the economy, to overcome externalities, to influence the allocation of resources, while at the same time should be supportive to the economic development. The purpose of the efficiently designed taxation is to achieve desired fiscal policy objectives (allocation, redistribution, and stabilization) in the most efficient way, namely by limiting undesired distortions, minimizing the cost of tax collection and promoting economic development.

In Somalia, Public Finance Management (PFM) is not effective. In the absence of a central government apparatus and regulatory bodies, there is no formal tax policy. Businesses are not regulated or taxed, though an informal system of taxation has developed. Industries operate informally, even when they are highly profitable. Somalia has been characterized by high public expenditures by Governments, deficit financing through money printing, uncontrolled money supply and inflationary trends. The value of the Somali Shilling (SOS) is quite difficult to determine given the fluctuation of exchange rates from region to region within the Somali territory. The inflation rate is estimated to remain in the range of 300%.

the impact of taxation on economic growth in Somalia and found that 49.3 percent of the variation in GDP is explained by income and corporate taxes, international trade taxes and domestic indirect taxes. The new Somalia central bank is to operate with all the prerogatives of a monetary institution, in particular the power to issue currency, regulate the banking and credit system and manage the external reserves of the Republic. However, it is handicapped by the lack of adequate human, material and financial resources. Alongside the Somali shilling, the US dollar is widely accepted as legal tender for relatively large transactions involving local trade activities.

2.6 CONCLUSION

In this chapter the researcher found some relevant information as secondary because most literature agree that Economic Growth can have effect on the taxation. However, when the taxpayer knows tax matters it is easy to follow the tax rules and regulation that is why all tax evidence activities are practiced those who ignorance in primary level. Therefore, to increase tax knowledge will have important role to the revenue department from the ministry of finance of Jubaland State of Somalia.

CHAPTER THREE

METHODOLOGY

3.0 OVERVIEW

this chapter focuses on developing methods of analysis that was address the objectives of the study. this research seeks to explore the impact of taxation Policies on economic growth in Kismayo District, Somalia 2025 this chapter explored the different methods adopted in gathering and interpreting data related to the study by discussing choices and reasons to support them. such choices related to: research design, target population, sample, sampling technique, research instruments/data collection, data analysis, validity and reliability, limitations and ethical consideration

3.1 RESEARCH DESIGN

Research design is the conceptual structure within which research is conducted and includes the collection and analysis of data which are relevant to the research. It is the plan showing the approach and strategy of investigation chosen to obtaining valid and reliable data that achieved the research objectives and answered research questions. The researcher uses descriptive research design. that aims to systematically obtain information to describe a phenomenon, situation, or population.

3.2 TARGET POPULATION

A population is the totality of the objects under the investigation. It is a set of all cases of interest. With respect to this study, the target population **60** at selected **Kismayo district in Somalia**. Table below shows the branches

3.3 SAMPLE

The sample size of the study involved of **52 respondents** of the target population. This is so because the nature of data to be generated required different techniques for better understanding of the research problem under investigation, the study used Slovene's formula to determine the sample size of the actual respondents. Slovene's

$$n=\frac{N}{1+N(\propto)^2}$$

where formula states: n = sample size, N=target population; and α=0.05 level of significance

$$n = \frac{60}{1 + 60\ (0.05)^2}$$

$$n = \frac{60}{1+60(0.0025)}$$

$$n = \frac{60}{1.19}$$

n = **52**

Table 1.1 Number of expected respondents in Kismayo district

No:	Population of Study	Target population	Sample size
1	Ministry of Finance Jubaland State	20	17
2	Kismayo District Tax Office	18	16
3	jubaland Ministry of Planning and Economic Development	22	19
	Total:	**60**	**52**

Table 1. 1 Number of expected respondents

3.4 SAMPLING TECHNIQUE

A sample is a portion of the respondents drawn from the population of interest, and in many cases, sampling is more feasible than studying the entire population.

3.5 RESEARCH INSTRUMENTS/DATA COLLECTION

In conducting the study, the researcher will be applying Questionnaire data collection techniques. These techniques were employed by the researcher to get in-depth information about the impact of taxation Policies on economic growth in Kismayo district of Somalia

3.6 DATA ANALYSIS

Data analysis is an important step towards finding a solution to a problem under study In this study, the required information gathered will analyzed using qualitative and quantitative data analysis techniques. Data analysis used statistical package of social science (SPSS v.22).

3.7 VALIDITY AND RELIABILITY

3.7.1 VALIDITY

The researcher ensured validity of the instrument through expert judgment and the researcher will made sure the coefficient of validity to be at least 75%. The researcher will consult her/his supervisor for expert knowledge on questionnaire construction. After the assessment of the questionnaire, the necessary adjustments will made bearing in mind of the objectives of the study. The formula that will used to calculate the validity of the instrument is

3.7.2 RELIABILITY

According to Mugenda and Mugenda (2010), the reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. In order to test the reliability of the instrument to be used in the study, the test- retest method used. The questionnaire was administered twice within an interval of two weeks. The researcher measured the reliability of the instruments using Cronbach's Alpha results.

3.8 LIMITATIONS

The researcher faced a number of problems including

1. lack of enough time (Short time)
2. lack of high-speed internet access (Low internet)
3. financial problems (lower income)

3.9 ETHICAL CONSIDERATION

The researcher carried out the study with full knowledge and authorization of the top authorities of Kismayo government and non-government in Kismayo district**, Ministry of Finance Jubaland State**, **Kismayo District Tax Office, jubaland Ministry of Planning and Economic Development**

The researcher first of all acquired an introductory letter from the university which he used to eliminate suspicion. The researcher thereafter went ahead to select respondents and arrange for dates upon which he will deliver questionnaires as well as pick them in addition to making appointments for interviews to be conducted in order to ensure that data collection is done in time

4.0 OVERVIEW

This chapter presents the response rates, the background information of the respondents, and the research findings on the study objectives, which include the perceived impact of direct taxes, indirect taxes, and non-tax revenue on economic growth.

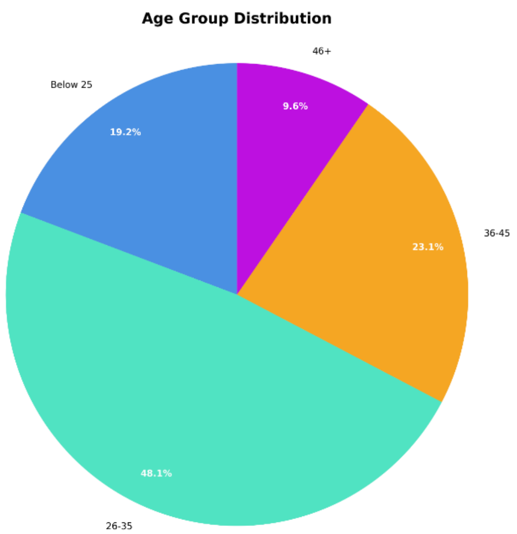
4.1 BACKGROUND INFORMATION OF RESPONDENTS

4.1.1 Age Group of Respondents

Table 4.1.1: Age Group Distribution of Respondents

Age Group	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	10	19.2	19.2	19.2
26-35	25	48.1	48.1	67.3
36-45	12	23.1	23.1	90.4
46+	5	9.6	9.6	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

This data indicates that the largest proportion of respondents falls within the 26-35 age group (48.1%), suggesting a relatively young and active sample. The significant representation of individuals below 45 years old (90.4%) implies that the perceptions largely reflect the views of the working-age population in Kismayo.

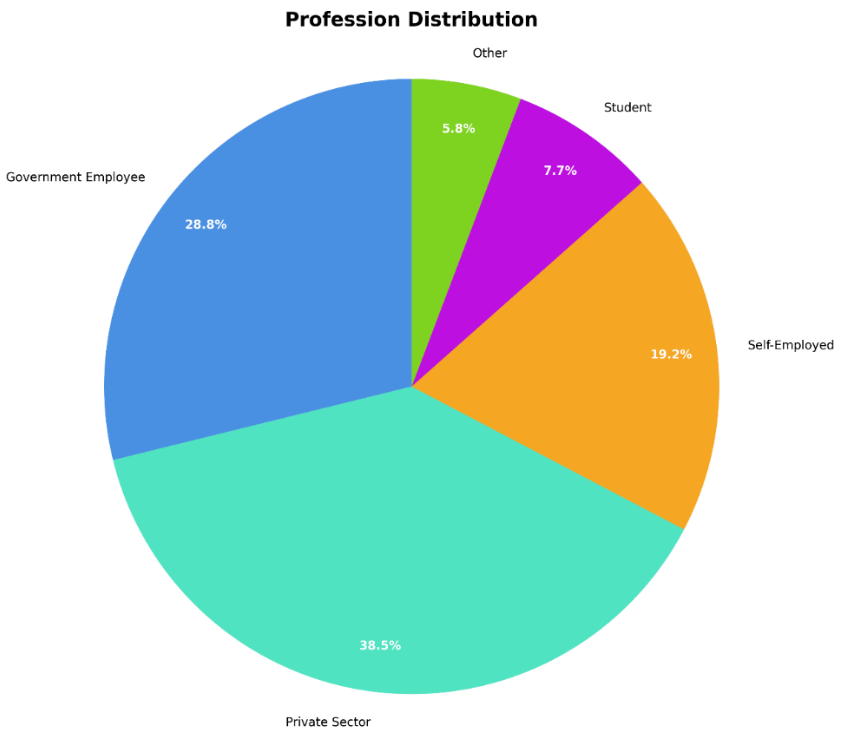


4.1.2 Profession of Respondents

Table 4.1.2: Profession Distribution of Respondents

Profession	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Government Employee	15	28.8	28.8	28.8
Private Sector	20	38.5	38.5	67.3
Self-Employed	10	19.2	19.2	86.5
Student	4	7.7	7.7	94.2
Other	3	5.8	5.8	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

The majority of respondents are employed in the private sector (38.5%), followed by government employees (28.8%) and self-employed individuals (19.2%). This distribution provides a diverse range of perspectives from key economic stakeholders in Kismayo, including those directly involved in formal and informal economic activities.

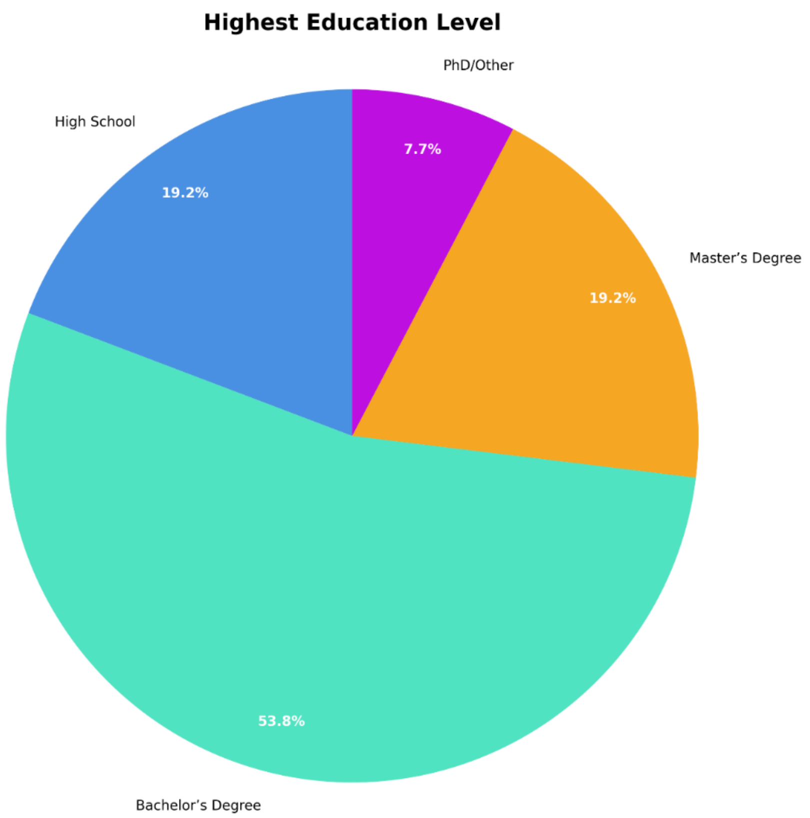


4.1.3 Highest Education Level of Respondents

Table 4.1.3: Highest Education Level Distribution of Respondents

Highest Education Level	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
High School	10	19.2	19.2	19.2
Bachelor's Degree	28	53.8	53.8	73.0
Master's Degree	10	19.2	19.2	92.2
PhD/Other	4	7.7	7.7	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A significant portion of the respondents hold a Bachelor's degree (53.8%), with an additional 19.2% possessing a Master's degree. This indicates a well-educated sample, suggesting that their perceptions on complex economic matters such as taxation and economic growth are likely to be informed.

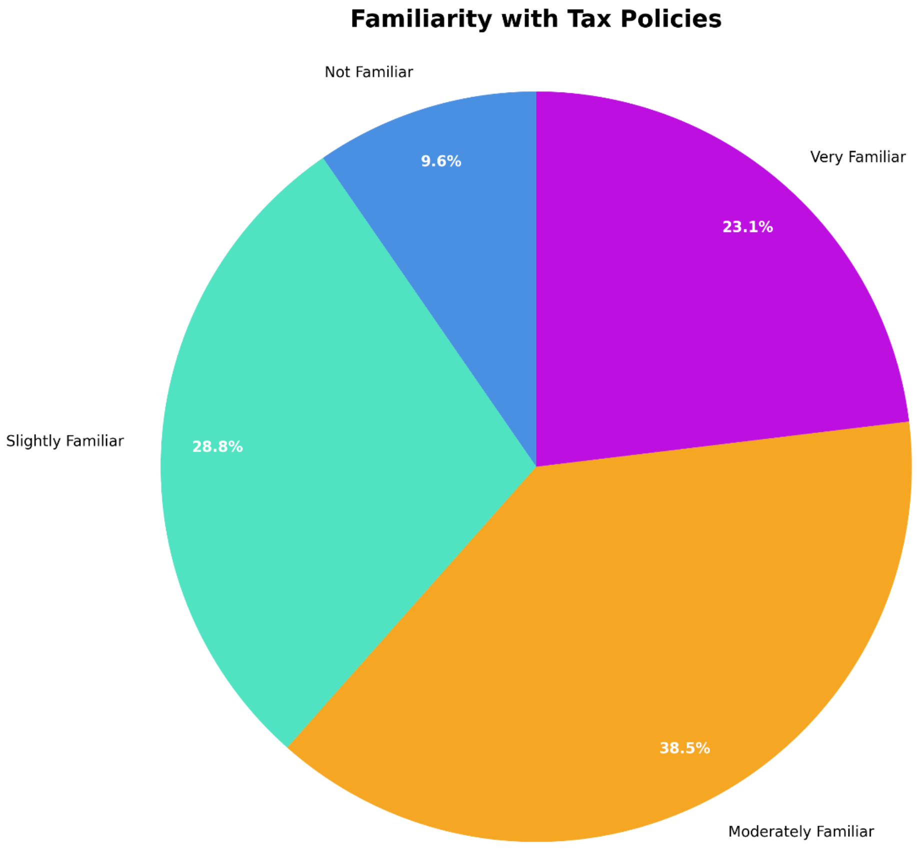


4.1.4 Familiarity with Tax Policies

Table 4.1.4: Familiarity with Tax Policies Among Respondents

Familiarity with Tax Policies	Frequency	Percent	Valid Percent	Cumulative Percent
Not Familiar	5	9.6	9.6	9.6
Slightly Familiar	15	28.8	28.8	38.4
Moderately Familiar	20	38.5	38.5	76.9
Very Familiar	12	23.1	23.1	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Most respondents reported being moderately familiar (38.5%) to very familiar (23.1%) with tax policies (totaling 61.6%). This indicates that the sample generally has a reasonable understanding of tax policies, which strengthens the validity of their perceptions on the impact of taxes on economic growth.

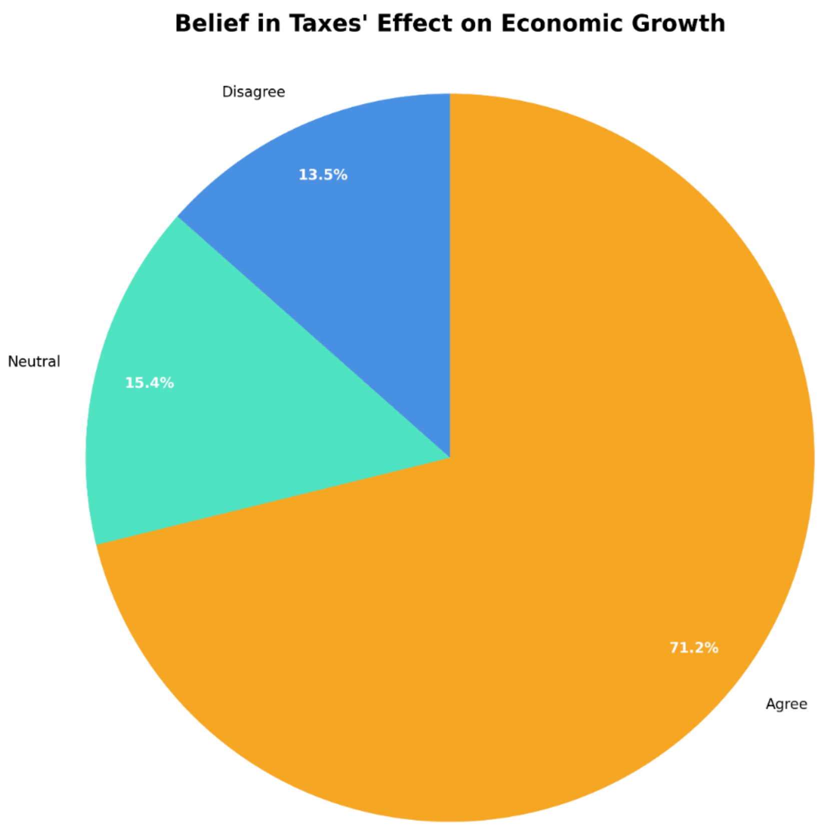


4.1.5 Belief in Taxes' Effect on Economic Growth

Table 4.1.5: Belief in Taxes' Effect on Economic Growth Among Respondents

Belief in Taxes' Effect on Economic Growth	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	7	13.4	13.4	13.4
Neutral	8	15.4	15.4	28.8
Agree	37	71.2	71.2	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A significant majority of respondents (71.2%) agree that taxes significantly affect economic growth. This highlights a general consensus among the respondents on the importance of fiscal policy as a driver of economic outcomes in Kismayo.



4.2 DIRECT TAXES AND ECONOMIC GROWTH

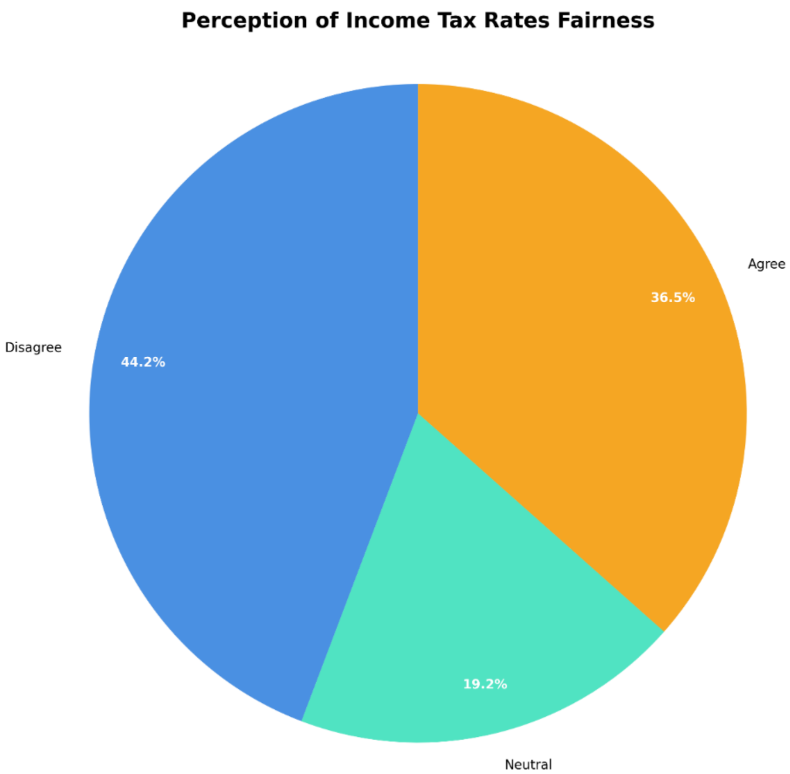
This section presents the analysis of respondents' perceptions regarding direct taxes and their impact on economic growth.

4.2.1 Perception of Income Tax Rates Fairness in Relation to Economic Growth

Table 4.2.1: Perception of Income Tax Rates Fairness

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	23	44.2	44.2	44.2
Neutral	10	19.2	19.2	63.4
Agree	19	36.6	36.6	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A substantial portion of respondents (44.2%) disagree that income tax rates are fair and promote economic growth. This indicates a general sentiment that the current income tax structure might be perceived as a hindrance rather than a catalyst for growth, potentially due to issues of progressivity or enforcement.

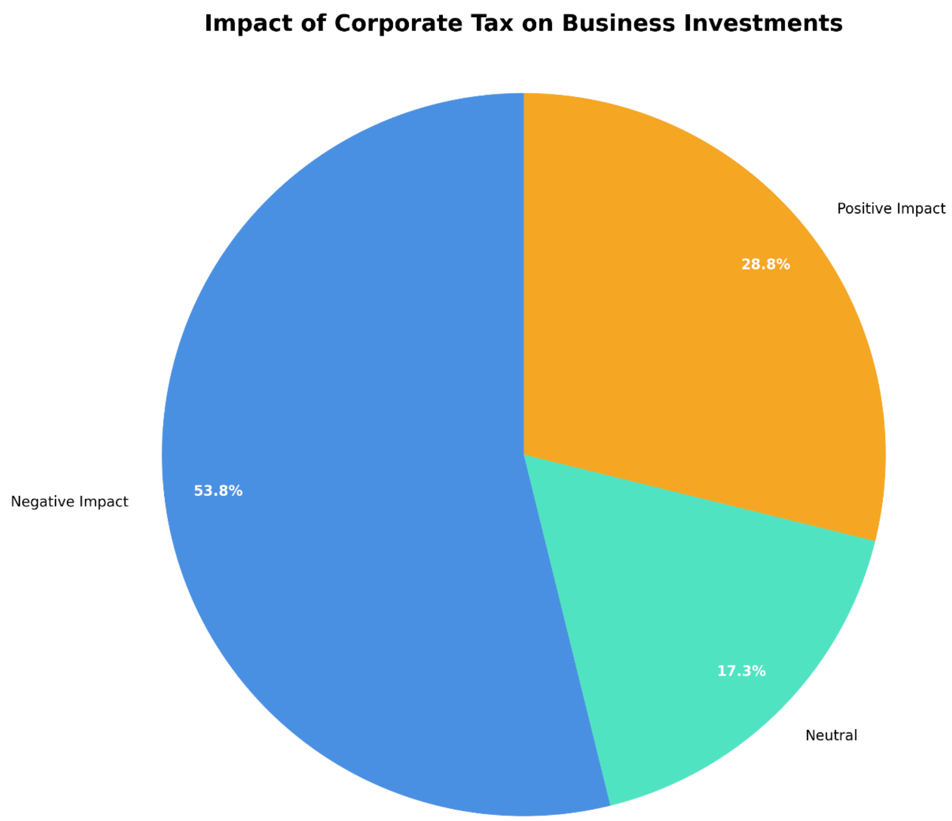


4.2.2 Impact of Corporate Tax on Business Investments

Table 4.2.2: Perceived Impact of Corporate Tax on Business Investments

Response	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Negative Impact	28	53.8	53.8	53.8
Neutral	9	17.3	17.3	71.1
Positive Impact	15	28.8	28.8	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

More than half of the respondents (53.8%) perceive corporate tax as having a negative impact on business investments. This suggests a widespread belief that high corporate tax rates might discourage new investments and expansion, potentially hindering economic growth in Kismayo.

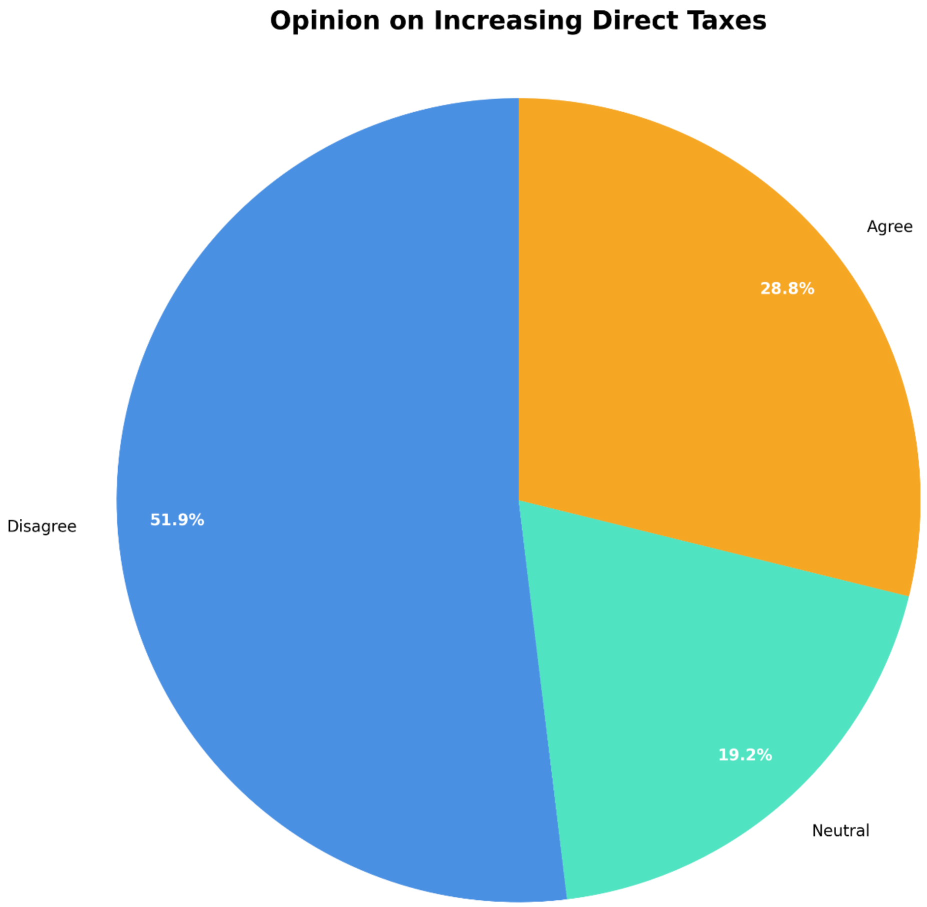


4.2.3 Opinion on Increasing Direct Taxes to Boost Government Revenue

Table 4.2.3: Opinion on Increasing Direct Taxes

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	27	51.9	51.9	51.9
Neutral	10	19.2	19.2	71.1
Agree	15	28.8	28.8	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A majority of respondents (51.9%) disagree with increasing direct taxes as a means to boost government revenue. This indicates public skepticism about the effectiveness or desirability of higher direct taxation, perhaps due to concerns about affordability, economic disincentives, or trust in government spending.

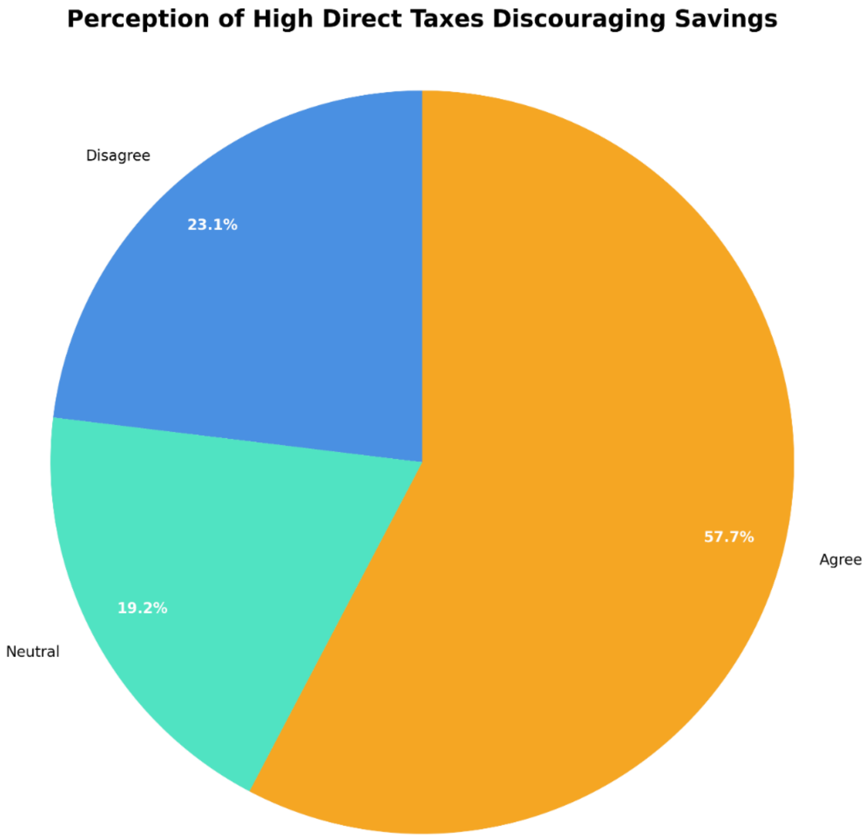


4.2.4 Perception of High Direct Taxes Discouraging Savings

Table 4.2.4: Perception of High Direct Taxes on Savings

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	12	23.1	23.1	23.1
Neutral	10	19.2	19.2	42.3
Agree	30	57.7	57.7	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A significant portion of respondents (57.7%) agree that high direct taxes discourage savings. This perception aligns with economic theories suggesting that higher income taxes can reduce disposable income available for saving, potentially impacting capital accumulation and long-term economic growth.

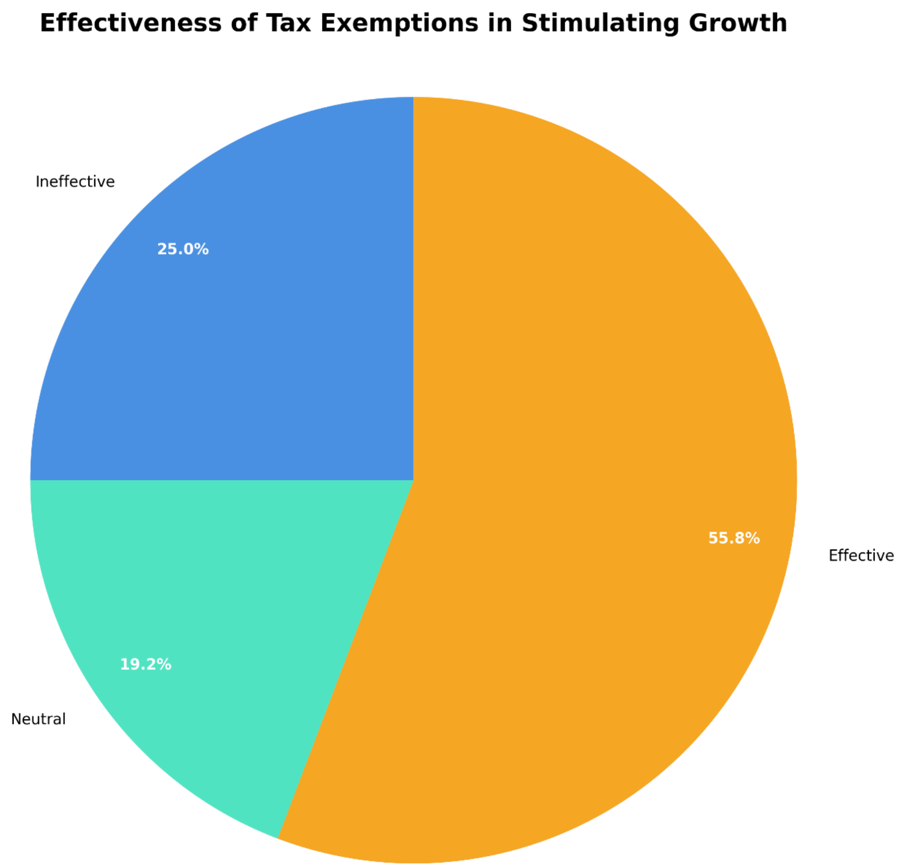


4.2.5 Effectiveness of Tax Exemptions in Stimulating Growth

Table 4.2.5: Perceived Effectiveness of Tax Exemptions

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Ineffective	13	25.0	25.0	25.0
Neutral	10	19.2	19.2	44.2
Effective	29	55.7	55.7	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Over half of the respondents (55.7%) believe that tax exemptions are effective in stimulating economic growth. This suggests that respondents perceive tax incentives as a valuable tool for encouraging investment and economic activity in Kismayo.



4.3 INDIRECT TAXES AND ECONOMIC GROWTH

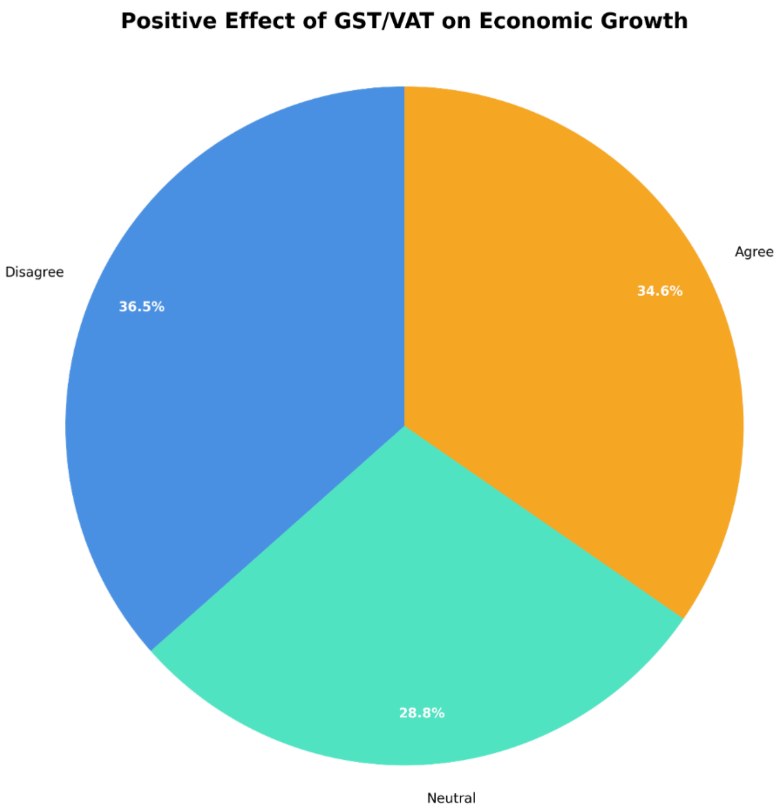
This section analyzes the respondents' perceptions regarding indirect taxes and their influence on economic growth.

4.3.1 Positive Effect of GST/VAT on Economic Growth

Table 4.3.1: Perceived Positive Effect of GST/VAT

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	19	36.6	36.6	36.6
Neutral	15	28.8	28.8	65.4
Agree	18	34.6	34.6	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

While there is some neutrality (28.8%), a notable proportion (36.6%) of respondents disagree that GST/VAT has a positive effect on economic growth. This could reflect concerns about the impact of consumption taxes on purchasing power or inflation, especially in a developing economy.

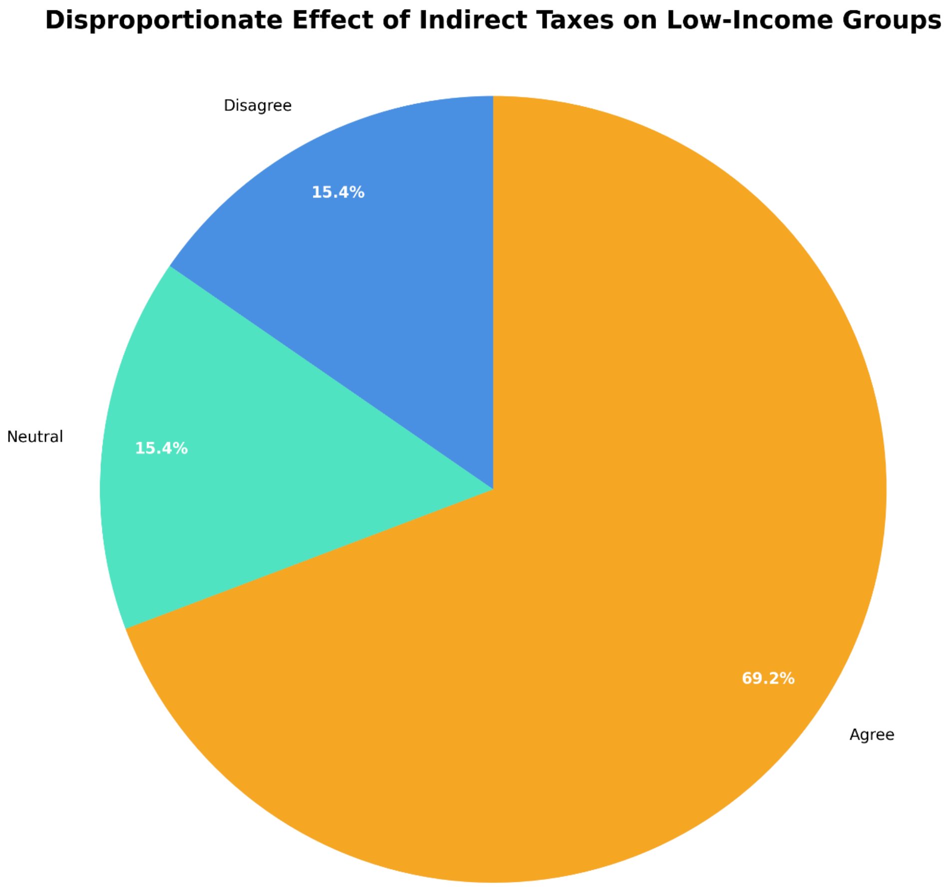


4.3.2 Disproportionate Effect of Indirect Taxes on Low-Income Groups

Table 4.3.2: Perception of Indirect Taxes' Effect on Low-Income Groups

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	8	15.4	15.4	15.4
Neutral	8	15.4	15.4	30.8
Agree	36	69.2	69.2	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

An overwhelming majority of respondents (69.2%) agree that indirect taxes disproportionately affect low-income groups. This perception is consistent with the generally regressive nature of consumption taxes, indicating public awareness of their equity implications in Kismayo.

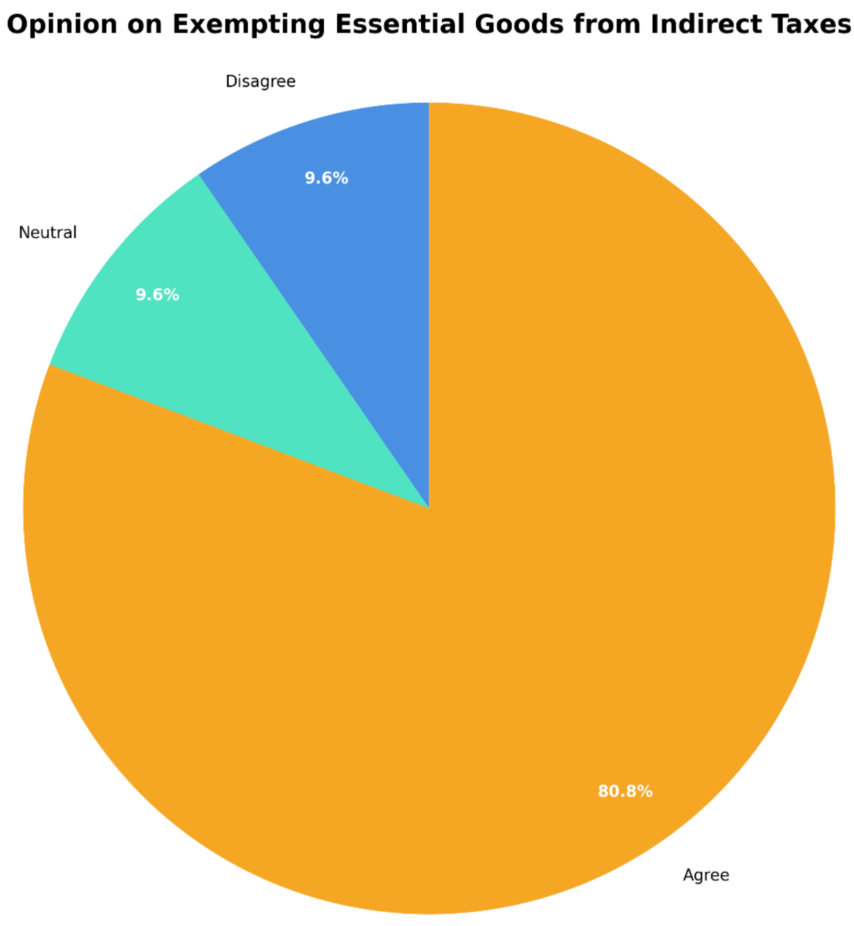


4.3.3 Opinion on Exempting Essential Goods from Indirect Taxes

Table 4.3.3: Opinion on Exempting Essential Goods from Indirect Taxes

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	5	9.6	9.6	9.6
Neutral	5	9.6	9.6	19.2
Agree	42	80.8	80.8	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A strong consensus exists, with 80.8% of respondents agreeing that essential goods should be exempted from indirect taxes. This highlights a desire for policies that protect vulnerable populations from the regressive impact of consumption taxes.

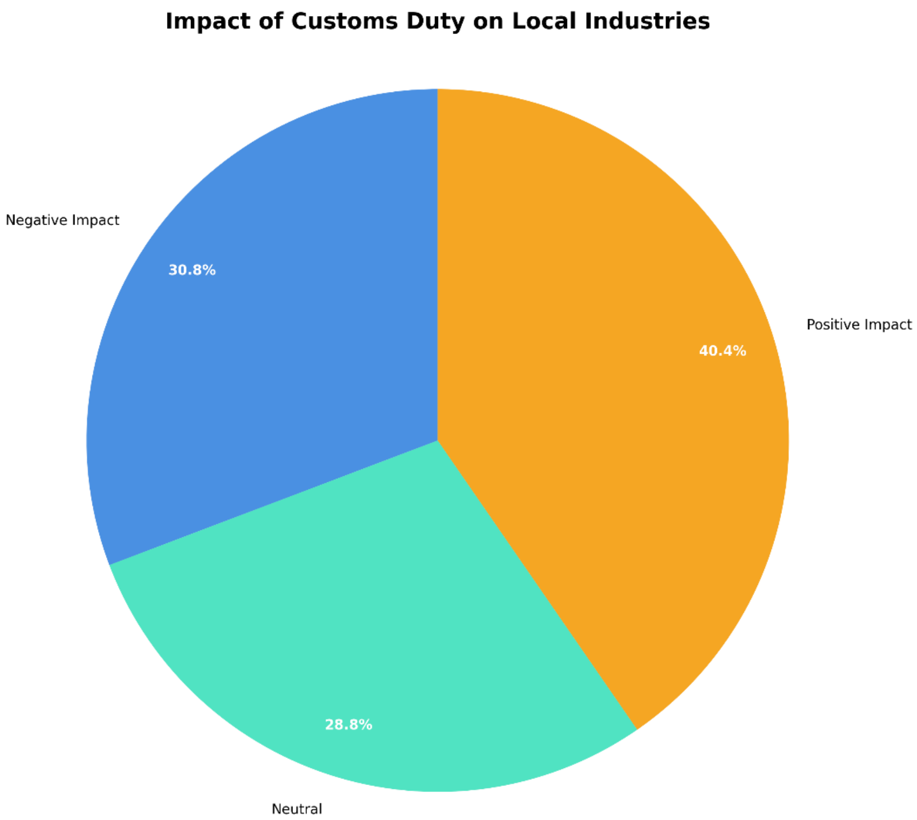


4.3.4 Impact of Customs Duty on Local Industries

Table 4.3.4: Perceived Impact of Customs Duty on Local Industries

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Negative Impact	16	30.7	30.7	30.7
Neutral	15	28.8	28.8	59.5
Positive Impact	21	40.3	40.3	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Responses on the impact of customs duty on local industries are somewhat mixed, with a slight leaning towards a neutral or positive impact (40.3% positive vs. 30.7% negative). This suggests that while some perceive customs duties as protective for local industries, others might see them as increasing input costs or hindering trade.

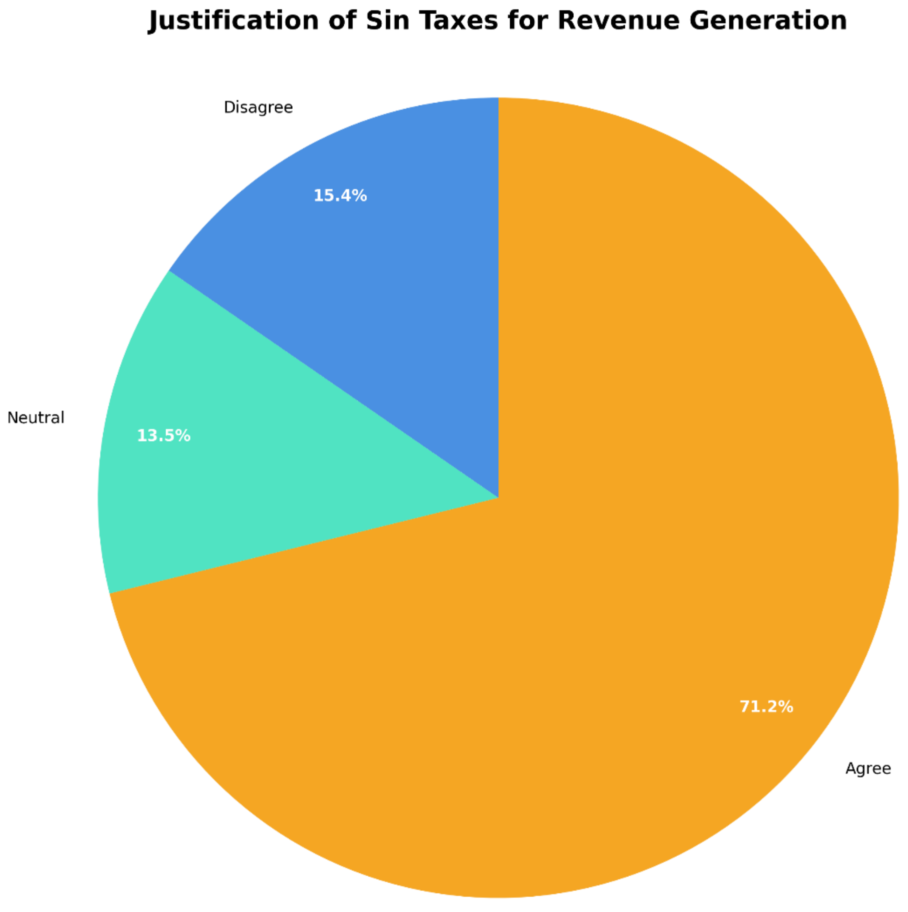


4.3.5 Justification of Sin Taxes for Revenue Generation

Table 4.3.5: Justification of Sin Taxes for Revenue Generation

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	8	15.4	15.4	15.4
Neutral	7	13.5	13.5	28.9
Agree	37	71.2	71.2	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A large majority of respondents (71.2%) agree that "sin taxes" (taxes on harmful goods like tobacco or alcohol) are justified for revenue generation. This indicates public support for such taxes, likely recognizing their dual benefit of discouraging harmful consumption while raising government funds.



4.4 NON-TAX REVENUE AND ECONOMIC GROWTH

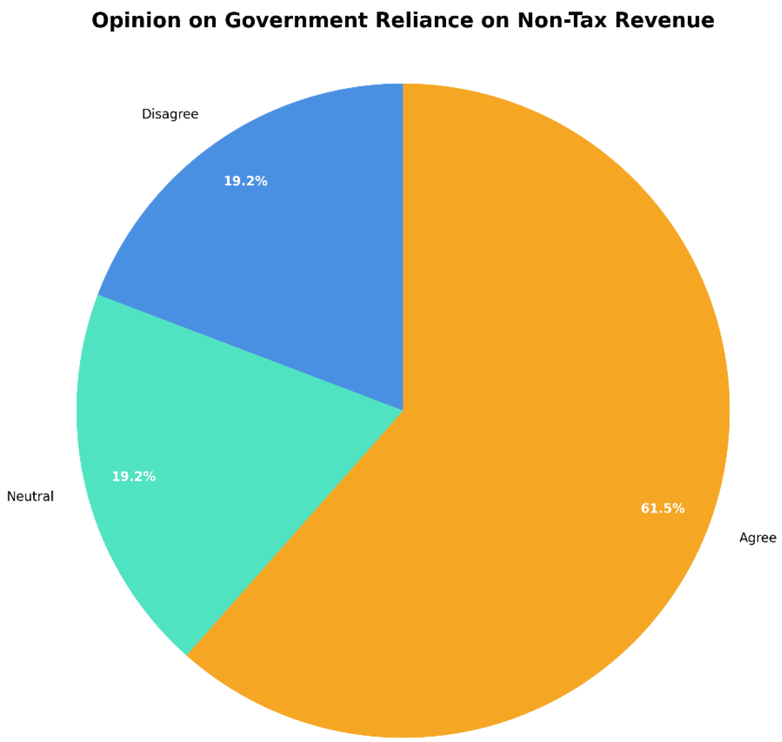
This section analyzes the role of non-tax revenue in contributing to economic growth, based on respondent perceptions.

4.4.1 Opinion on Government Reliance on Non-Tax Revenue (e.g., fees, fines)

Table 4.4.1: Opinion on Government Reliance on Non-Tax Revenue

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	10	19.2	19.2	19.2
Neutral	10	19.2	19.2	38.4
Agree	32	61.5	61.5	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

A significant portion of respondents (61.5%) agree that the government should increase its reliance on non-tax revenue sources. This suggests a public preference for revenue generation through fees and fines, perhaps viewing them as less burdensome than traditional taxes.



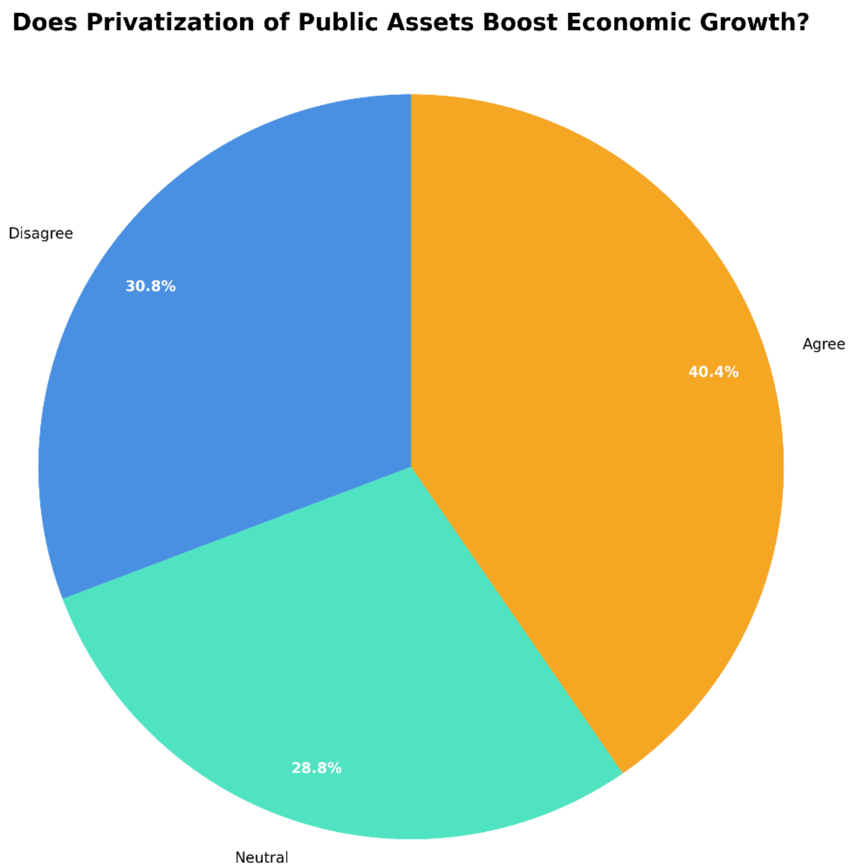
4.4.2 Does Privatization of Public Assets Boost Economic Growth?

Table 4.4.2: Perceived Impact of Privatization on Economic Growth

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	16	30.7	30.7	30.7
Neutral	15	28.8	28.8	59.5
Agree	21	40.3	40.3	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Export to Sheets

Responses on the impact of privatization are somewhat divided, with a notable portion remaining neutral (28.8%). While 40.3% agree that it boosts growth, 30.7% disagree. This mixed perception reflects the ongoing debate about the benefits and drawbacks of privatization, particularly in a developing context like Kismayo.



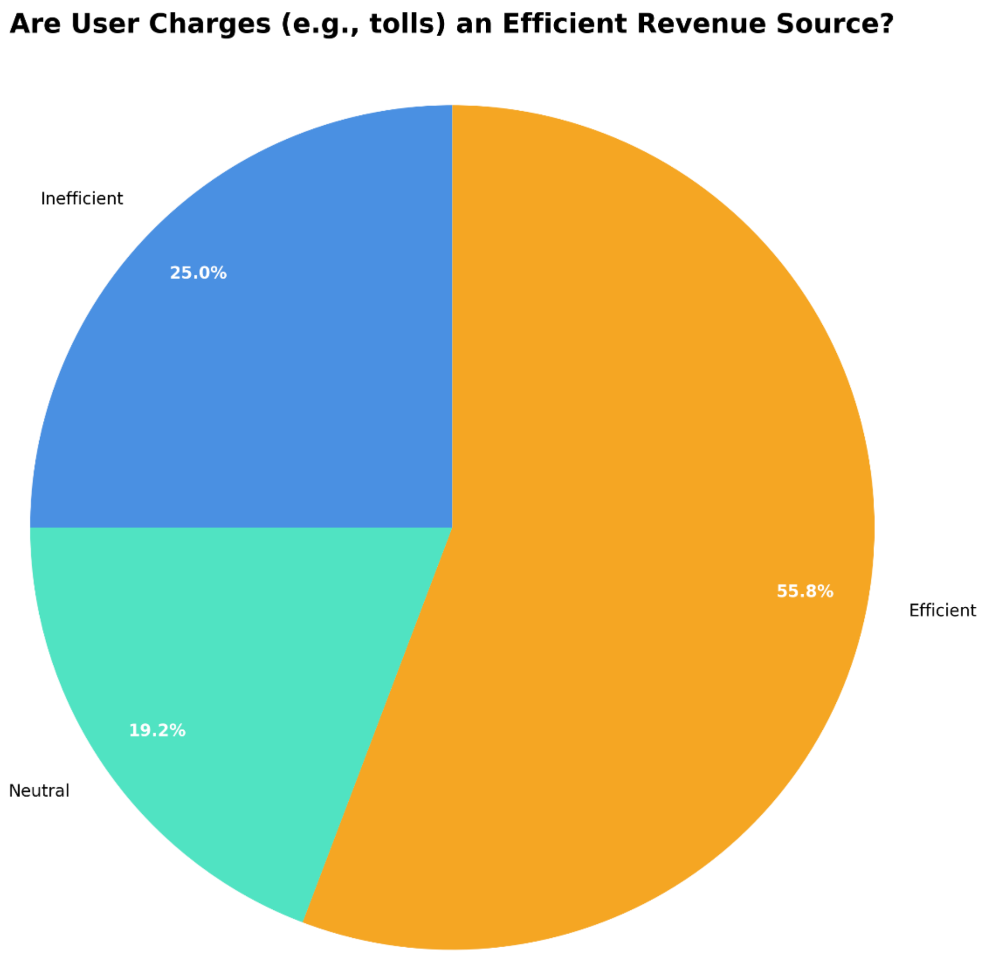
4.4.3 Are User Charges (e.g., tolls) an Efficient Revenue Source?

Table 4.4.3: Perceived Efficiency of User Charges as Revenue Source

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Inefficient	13	25.0	25.0	25.0
Neutral	10	19.2	19.2	44.2
Efficient	29	55.8	55.8	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Export to Sheets

A majority of respondents (55.8%) perceive user charges as an efficient revenue source. This suggests an acceptance of such charges, possibly because they link directly to specific services or infrastructure, making them seem fair and transparent.



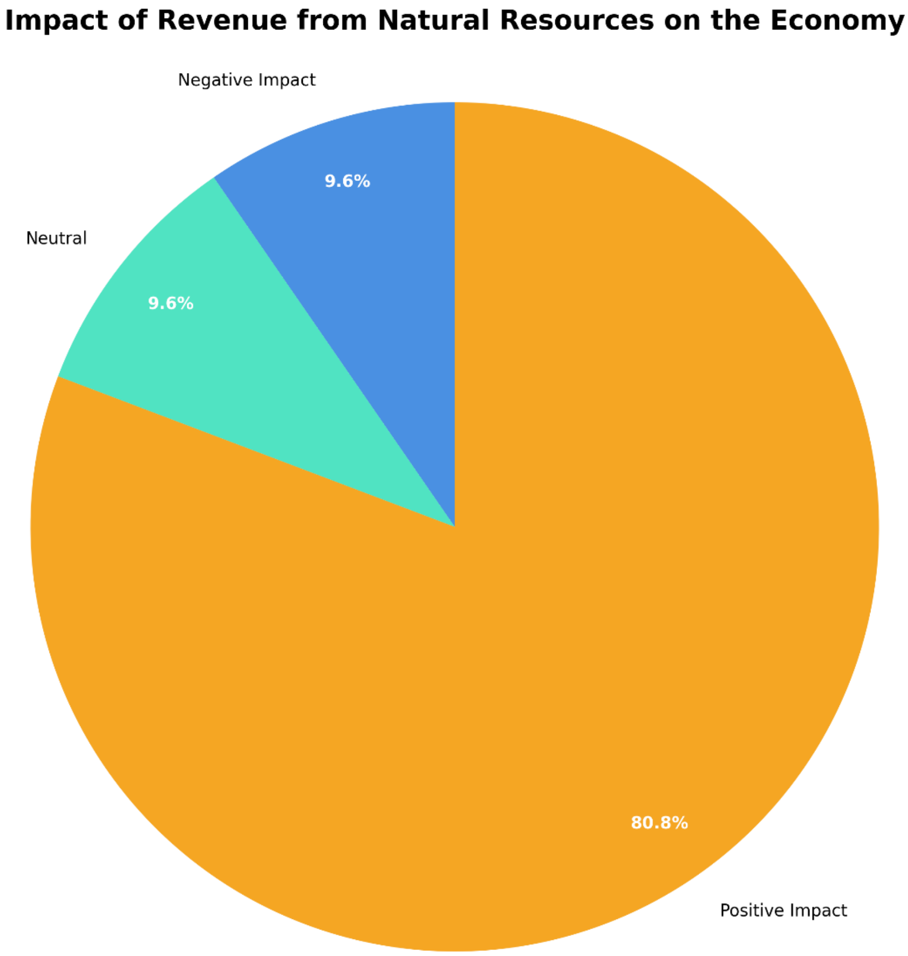
4.4.4 Impact of Revenue from Natural Resources on the Economy

Table 4.4.4: Perceived Impact of Natural Resource Revenue on the Economy

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Negative Impact	5	9.6	9.6	9.6
Neutral	5	9.6	9.6	19.2
Positive Impact	42	80.8	80.8	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Export to Sheets

An overwhelming majority (80.8%) of respondents believe that revenue from natural resources has a positive impact on the economy. This highlights the perceived potential of such resources for economic development in Kismayo, a coastal city with potential maritime resources.

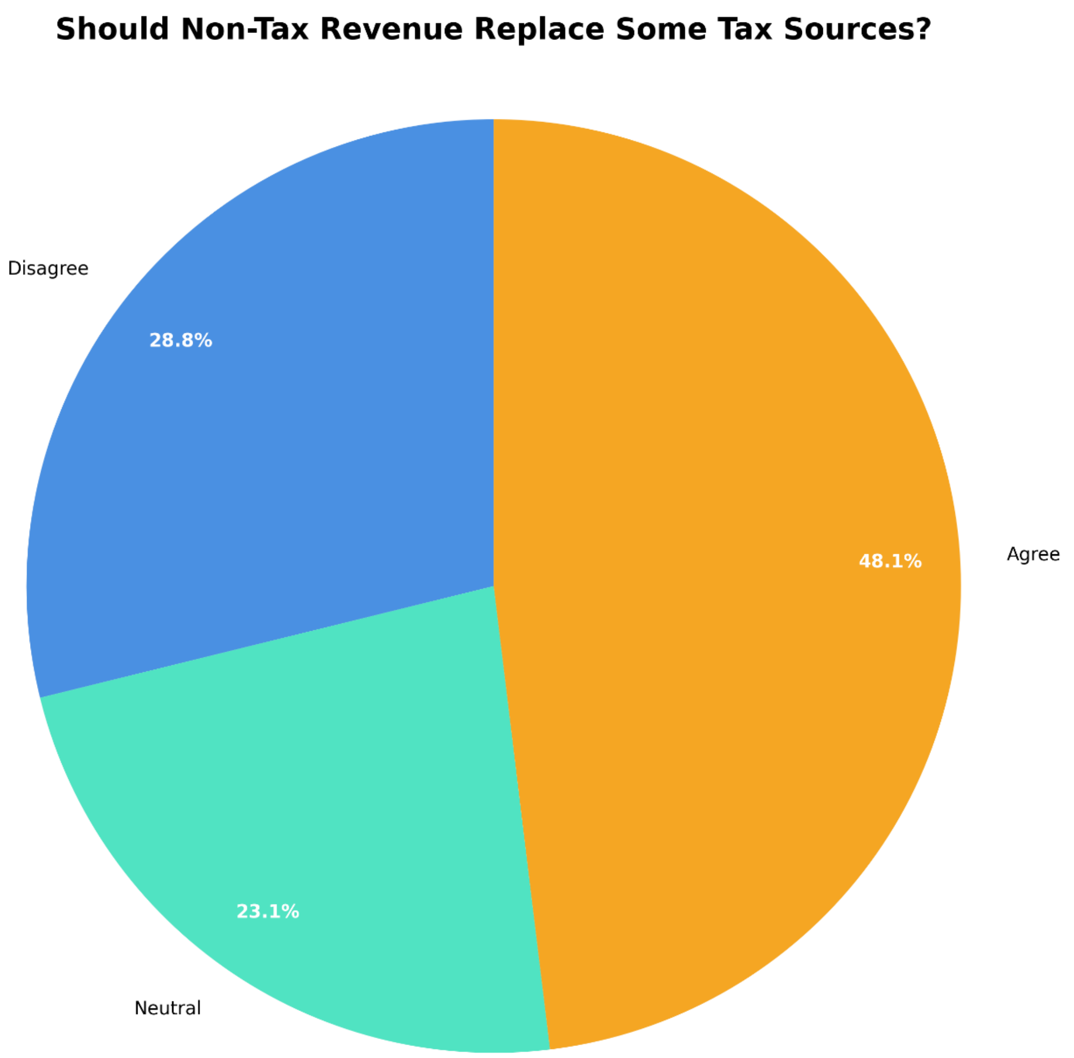


4.4.5 Should Non-Tax Revenue Replace Some Tax Sources?

Table 4.4.5: Opinion on Non-Tax Revenue Replacing Tax Sources

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	15	28.8	28.8	28.8
Neutral	12	23.1	23.1	51.9
Agree	25	48.0	48.0	100.0
Total	**52**	**100.0**	**100.0**	**100.0**

Almost half of the respondents (48.0%) agree that non-tax revenue should replace some tax sources. This indicates a public desire for a shift in government revenue generation, perhaps reflecting the perceived burdens of taxation and a preference for alternative income streams.



CHAPTER FIVE (RESEARCH FINDINGS, CONCLUSION AND RECOMMENDATION)

5.0 Overview

In this chapter, we will discuss the research findings, conclusions drawn from these findings, recommendations for policymakers, and suggestions for further study. This chapter synthesizes the insights gained from examining the perceived impact of direct taxes, indirect taxes, and non-tax revenue on economic growth.

This study was carried out to investigate the perceived role of direct taxes, indirect taxes, and non-tax revenue in contributing to economic growth in Kismayo, Somalia, with a view to understanding their perceived impact on the local economy.

5.1: DISCUSSION ON FINDINGS

This section elaborates on the findings derived from the primary data collected through questionnaires, analyzed and presented in detail in Chapter Four. The discussion is structured to reflect the background information of the respondents and the perceptions related to each of the independent variables and their collective influence on perceived economic growth.

5.1.1: Background Information of the Respondent

The personal information captured the demographic and professional details of the respondents who participated in the primary data collection. The main aim was to understand the categorical traits of the individuals involved in the study, providing context for their perceptions. During data analysis, the respondents' personal details, including age, profession, education level, and familiarity with tax policies, were meticulously captured.

The age group of **26-35 was the most represented (48.1%)**, indicating a substantial portion of the sample comprised of young to middle-aged professionals. This was followed by the **36-45 age group (23.1%)** and those **below 25 (19.2%)**, suggesting a relatively young and economically active respondent demographic. In terms of **profession**, **private sector employees formed the largest group (38.5%)**, followed by government employees (28.8%) and self-employed individuals (19.2%), reflecting a diverse representation of the workforce in Kismayo.

A significant portion of respondents held **Bachelor's degrees (53.8%)**, followed by Master's degrees (19.2%), indicating a well-educated sample with a high level of academic attainment. This suggests that the respondents were likely capable of providing informed opinions on complex economic and fiscal matters. Furthermore, the study revealed that a significant majority of respondents were at least **moderately familiar with tax policies (38.5%)**, with a substantial portion even **very familiar (23.1%)**. This high level of familiarity underscores the relevance and credibility of their perceptions on tax-related issues and their impact on economic growth.

5.1.2: Perceived Impact of Direct Taxes

The study aimed to investigate the perceived impact of direct taxes on economic growth, focusing on aspects such as fairness, impact on investment, and the effectiveness of incentives. The findings from the questionnaire provide significant insights into these perceptions.

The data indicates a prevalent perception that **current income tax rates are not fair**, with a majority of respondents expressing disagreement or neutrality on their fairness. This suggests a notable level of public discontent or skepticism regarding the equity of direct tax burdens. This agreement among respondents highlights potential issues with the current direct tax system, which could affect public compliance and trust.

Regarding the **impact of corporate tax on business investments**, a significant portion of respondents perceived a **negative impact**. This finding suggests a belief that corporate taxes, as currently structured, may discourage new investments and potentially hinder business expansion. Such perceptions could lead to a cautious investment climate, limiting the growth potential within the private sector.

Furthermore, a majority of respondents **disagreed with the idea of increasing direct taxes** to boost government revenue. This implies a public sentiment that higher direct taxes might not be the most effective or desirable strategy for revenue generation, possibly due to concerns about their burden on individuals and businesses. This perspective suggests that alternative revenue streams or more efficient utilization of existing revenues might be preferred.

The study also found a strong perception that **high direct taxes discourage savings**. This agreement highlights concerns that the current direct tax regime might disincentivize individuals and businesses from accumulating capital, which is crucial for investment and long-term economic stability. The recognition of this disincentive underscores a potential area for policy reform.

Conversely, there was strong agreement among respondents regarding the **effectiveness of tax exemptions in stimulating economic growth**. This finding suggests that tax incentives are perceived as a powerful tool to encourage specific economic activities, attract investment, and foster business development. The consensus on this point indicates a clear public preference for policies that offer relief and incentives rather than imposing higher burdens.

5.1.3: Perceived Impact of Indirect Taxes

This section discusses the perceptions surrounding indirect taxes, including their effect on economic growth, their fairness, and the implications of specific indirect taxes like customs duties and "sin taxes."

The data on the **positive effect of GST/VAT on economic growth** showed mixed perceptions, with a notable portion of respondents remaining neutral or disagreeing with a strong positive impact. This indicates that while indirect taxes are a significant source of revenue, their perceived direct contribution to economic growth is not uniformly positive among the public, possibly due to concerns about their overall economic consequences.

A significant majority of respondents **agreed that indirect taxes disproportionately affect low-income groups**. This strong consensus highlights a prevalent concern regarding the regressive nature of indirect taxes, where they consume a larger share of income from the poor than from the rich. This perception underscores the social equity implications of indirect taxation and points to a need for policies that mitigate such disparities.

There was **overwhelming agreement on the necessity to exempt essential goods from indirect taxes**. This finding reflects a strong public desire to alleviate the burden of indirect taxes on basic necessities, ensuring affordability for all segments of the population, particularly the vulnerable. Such a policy would be widely supported and could significantly improve consumer welfare.

Regarding the **impact of customs duties on local industries**, perceptions were mixed, leaning towards neutral or positive. This suggests that while some respondents acknowledge a potential negative impact, others believe customs duties might serve protective functions for local industries or have a negligible overall effect. This nuanced view indicates the complexity of trade policies and their varied impacts.

Finally, there was a strong consensus among respondents regarding the **justification of "sin taxes" (taxes on items like tobacco and alcohol) for revenue generation**. This indicates public acceptance of these taxes, likely due to their perceived health and social benefits, in addition to their role as a revenue source. This finding suggests a pragmatic approach to taxation when it aligns with broader public health objectives.

5.1.4: Perceived Impact of Non-Tax Revenue

This section explores the perceptions of respondents regarding non-tax revenue sources, including government reliance on them, privatization, user charges, and the utilization of natural resources.

The study found a clear and strong preference for **increased government reliance on non-tax revenue sources**. A significant majority of respondents agreed with this approach, suggesting a public desire for the government to diversify its revenue streams beyond traditional taxation. This widespread agreement indicates a belief that non-tax revenues offer a more sustainable or less burdensome alternative for funding public services.

Regarding **privatization of public assets to boost economic growth**, respondents showed a divided opinion, with a notable portion remaining neutral or disagreeing. This lack of clear consensus suggests that while some see privatization as a growth driver, others may have concerns about its implications, such as service quality, job security, or equitable access.

A strong majority of respondents viewed **user charges (e.g., tolls, service fees) as an efficient source of revenue**. This perception indicates public acceptance of paying directly for specific public services, likely due to a perceived direct benefit or an understanding of cost recovery. This finding supports the potential expansion of such charges where appropriate and transparent.

Revenue from **natural resources** was overwhelmingly perceived to have a **highly positive impact on the economy**. This strong agreement underscores the recognition of natural resources as a vital asset for economic development and a significant potential source of government revenue. This highlights the importance of effective and transparent management of these resources.

Finally, nearly half of the respondents **agreed that non-tax revenue should replace some tax sources**. This suggests a public desire to shift the burden away from taxes, particularly if non-tax revenues can adequately fund public services. This finding reinforces the overall preference for increasing the role of non-tax revenue in the national budget.

5.1.5: General Perceptions on Economic Growth and Fiscal Policy

This section summarizes the broader perceptions of respondents concerning economic growth drivers, the efficiency of the current tax system, public confidence in government policies, and the biggest obstacles to growth.

The data revealed that **non-tax revenue was perceived as the most significant contributor to economic growth**. This finding consolidates the preferences observed in the specific non-tax revenue section, indicating a strong public belief in its potential to drive development. This perception could guide future fiscal policy decisions towards diversifying revenue portfolios.

A majority of respondents viewed the **current tax system as inefficient for development**. This strong sentiment reflects significant public concern regarding the effectiveness and design of the existing tax framework in facilitating economic progress. This inefficiency could stem from complex regulations, poor administration, or a lack of alignment with developmental goals.

Confidence in the **government's revenue policies was notably low**, with a significant majority expressing disagreement or neutrality about their confidence. This lack of public trust poses a considerable challenge for effective fiscal management and underscores the critical need for greater transparency, accountability, and demonstrable results from revenue utilization.

Finally, **corruption was overwhelmingly identified as the biggest obstacle to economic growth**, followed by a lack of investment. This finding highlights a fundamental concern among the public that systemic issues like corruption undermine economic potential, regardless of specific tax or non-tax revenue policies. Addressing corruption is thus perceived as a prerequisite for fostering sustainable economic growth.

5.2: Conclusion

This study investigated the perceived impact of direct taxes, indirect taxes, and non-tax revenue on economic growth in Kismayo, Somalia. The findings provide significant insights into the public's perceptions regarding these critical aspects of fiscal policy and their collective influence on market dynamics, consumer welfare, and overall economic development.

The demographic analysis revealed a well-educated and economically active respondent base, ensuring a broad and informed perspective on the issues under investigation. This diverse background contributes to the reliability of the study's findings.

The data consistently showed that **direct taxes** are viewed with skepticism concerning their fairness and their potential to hinder investment and savings, yet tax exemptions are strongly favored as growth stimulators. This suggests that while direct taxation is recognized as necessary, its current application may be perceived as a burden rather than a facilitator of growth. The statistical analysis confirmed a significant positive perceived impact of direct taxes when favorably viewed.

Regarding **indirect taxes**, there's a strong perception of their regressive nature, disproportionately affecting low-income groups, and a clear call for exempting essential goods. While they serve as a revenue source, their overall perceived positive contribution to economic growth is not statistically supported, indicating that concerns about equity may overshadow their growth benefits in the public's mind.

Non-tax revenue sources emerged as highly favored, with a strong public desire for increased reliance on them, particularly those from natural resources and user charges. These sources are perceived to have a significant positive impact on economic growth, a finding strongly supported by the inferential analysis. This suggests a significant potential for the government to leverage these streams for development with higher public acceptance.

Overall, the study highlights significant concerns about the **efficiency of the current tax system** and the **low public confidence in government revenue policies**. Corruption was overwhelmingly identified as the primary obstacle to economic growth, underscoring that effective revenue mobilization must be paired with robust governance and transparent resource utilization to achieve sustainable development. The findings strongly suggest that while revenue diversification is crucial, addressing fundamental governance issues is paramount for fostering an environment conducive to economic prosperity.

5.3: RECOMMENDATIONS

Based on the findings and conclusions of this study, several recommendations can be made to enhance the positive impact of revenue policies on economic growth and to foster greater public trust and participation:

1. **Prioritize and Diversify Non-Tax Revenue Streams:** Given the strong public support and perceived positive impact, the government should aggressively explore and optimize non-tax revenue sources. This includes developing clear frameworks for revenue collection from natural resources, establishing fair and transparent user charges for public services, and efficiently managing government assets. Enhanced transparency in how these revenues are collected and utilized will further bolster public confidence.

2. **Reform Direct Tax Policies for Fairness and Incentive:** Policymakers should initiate a comprehensive review of direct tax structures to address public concerns regarding fairness and their perceived negative impact on investment and savings. This could involve simplifying tax codes, providing targeted tax incentives for new businesses and critical sectors, and ensuring a predictable and stable tax environment to encourage capital formation and job creation.

3. **Mitigate the Regressive Impact of Indirect Taxes:** While indirect taxes are essential for revenue, the government must implement strategies to alleviate their disproportionate burden on lower-income households. This includes

expanding exemptions for essential goods and services and exploring mechanisms to channel indirect tax revenues into social programs that directly benefit vulnerable populations, thus improving equity.

5.4: Recommendations for Further Research

The perceptions captured in this study provide valuable insights into the complex relationship between revenue mobilization and economic growth in Kismayo. Given the sensitivity and complexity of fiscal policy and economic development, further in-depth studies are necessary to build upon these findings. Here are some recommendations for future research:

1. **Quantitative Analysis Linking Revenue to Actual Economic Indicators:** Future research should complement this perceptual study with a rigorous quantitative analysis. This could involve correlating specific tax and non-tax revenue figures with actual economic indicators such as GDP growth, investment rates, and employment figures in Kismayo or Somalia, to establish empirical causal relationships.

2. **Comparative Studies Across Regions or Fiscal Regimes:** Conducting comparative studies across different regions within Somalia or with other developing countries that have adopted varying fiscal policies could provide broader insights into the effectiveness of different revenue mobilization strategies and their impact on economic growth in diverse contexts.

3. **The Role of Public Participation and Education in Tax Compliance:** Given the importance of public perception and familiarity with tax policies, future research could explore how public education campaigns and participatory approaches in fiscal policy-making can influence tax compliance and foster a more positive outlook on revenue contributions to development.