

Article 09:



HOW CAN EFFECTIVE PUBLIC FINANCIAL MANAGEMENT CREATE A STABLE AND THRIVING BUSINESS ENVIRONMENT

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Introduction:

In Somalia, the discussions related to business growth always focus on access to finance, innovation, entrepreneurship and trade often neglecting need to look for public Financial Management (PFM), which refers to how the government plans, collects, allocates, and monitors public resources.

In a country where public institutions are still growing and the private sector is growing as well while facing many challenges, effective PFM plays a central role that creates a base for stability, trust and efficiency. Therefore, PFM is not just a government function; it is a key driver of private sector growth.

ECONOMIC STABILITY AND BUSINESS CONFIDENCE

A stable economic environment is essential for any business to flourish. In Somalia economic fluctuations and external shocks are common due to limited capacity for macroeconomic management that can deal with international economic factors, and maintenance of fiscal discipline, which are required for controlling spending, managing deficits, and ensuring responsible use of resources and reduction of economic volatility.

Somalia relies heavily on imported goods, which puts pressure on the country's balance of payments. At the same time, the limited use of a strong and fully controlled local currency makes it difficult for the government

to implement effective monetary policy. This weakens the ability to manage money supply, control inflation, and maintain economic stability. If a stable and widely used local currency were in place, it would help strengthen monetary policy, improve economic balance, and potentially increase the purchasing power of citizens.

When policies and fiscal decisions are stable, businesses can plan investments, manage costs, and expand operations with confidence. In contrast, weak financial management leads to sudden changes in taxes or spending, which can disrupt business activities.

INFRASTRUCTURE DEVELOPMENT AND REDUCING BUSINESS COSTS

Infrastructure remains a major challenge for businesses in Somalia. Roads, ports, electricity, and digital systems are essential for efficient operations. Effective Public Financial Management, ensures that limited public resources are allocated to priority sectors such as transport and energy.

Improved infrastructure reduces the cost of doing business. Better roads allow goods to move faster and at lower cost.

Similarly, investments in energy can reduce high electricity prices that burden many businesses. The current investment by the World Bank in the energy sector of Somalia will help boost businesses and support the launch of local industrialization of Somalia. However, poor financial management results in unfinished projects, inefficient resource use, and a loss of trust from investors and other institutions that provide us grants and loans.

TRANSPARENCY, ACCOUNTABILITY, AND INVESTOR TRUST

Trust in government systems is critical for attracting investment. In Somalia, improving transparency and accountability remains an ongoing priority. Strong public financial management promotes the publication of budgets, adherence to procurement rules, and implementation of audit recommendations.

These practices build confidence among

local entrepreneurs, diaspora investors, and international partners thus attracting increased foreign direct investment. When businesses trust the rules are fair and consistently applied, they are more likely to invest and engage in long-term business activities. Lack of transparency, on the other hand, increases uncertainty and discourages investment.

FAIR TAXATION AND A LEVEL PLAYING FIELD

An effective revenue system is a key component of public financial management. In Somalia, inconsistencies in tax systems across regions can create challenges for businesses. Strengthening PFM helps harmonize tax policies, improve administration, and reduce arbitrary charges.

Currently, Somalia lacks a unified tax system, making it difficult for businesses and investors to understand the procedures for paying taxes at the federal, state, and municipal

levels; each state has its own tax system, in addition to the federal tax system. This situation creates operational uncertainty for businesses and makes mobility difficult.

A clear and predictable tax system allows companies to plan effectively and compete on equal terms. It also reduces the burden of informal payments and encourages businesses to operate within the formal economy.

TIMELY GOVERNMENT PAYMENTS AND BUSINESS SUSTAINABILITY

Many businesses in Somalia depend on government contracts, particularly in sectors such as construction and service delivery. Effective treasury management ensures that these businesses are paid on time. Timely payments are crucial for maintaining cash flow. Delays can disrupt

operations, increase borrowing costs, and even lead to business failure. When the government manages its finances efficiently, it strengthens relationships with the private sector and encourages more participation in public projects.

OVERSIGHT AND REDUCING CORRUPTION RISKS

Strong oversight mechanisms are crucial for safeguarding accountability in public expenditure. In Somalia, institutions such as the parliament and the auditor general are gradually taking on roles in monitoring the government's public financial management.

Effective public financial management enables oversight institutions to ensure that financial entities, such as the Ministry of Finance, the state and central banks, and

the statistics bureau, to produce accurate financial data and that all businesses have access to which they can utilize for planning. This approach decreases corruption risks and promotes fair competition, and it helps businesses to forecast the capital injections in the country and gives deep analysis of investors and contractors, as they can access detailed financial information and procurement data that inform their investment decisions.

Conclusion:

Public financial management is a critical but often overlooked factor in business development. In Somalia, its importance is even greater due to the country's ongoing economic and institutional development.

Somalia's economic future will not depend only on entrepreneurship and foreign investment, but also on how effectively public resources are managed. Strong public financial management creates the foundation for stability, investor confidence, infrastructure development, and fair economic

opportunities. A country with transparent and accountable financial systems attracts investment, supports local businesses, and builds sustainable economic growth for future generations.

By strengthening financial systems, improving transparency, ensuring fair taxation, and investing in infrastructure, the government can create a business environment that supports growth and innovation.