



ODA Cuts on Somalia: Quantifying the Impact and Charting Viable Policy Pathways (Volume II)

Social and System-Level Impacts of ODA Decline in Somalia

I. INTRODUCTION

Somalia is entering a more constrained and uncertain financing era. For more than a decade, external assistance has not only supported humanitarian response, but also helped sustain basic services, household consumption, institutional rebuilding, and local economic activity. As that financing contracts, the effects are not confined to project budgets or individual programs. They are being felt across the systems that households, service providers, local governments, and businesses rely on to manage recurring shocks.

This paper is **Volume II of a two-part policy paper on the impact of declining Official Development Assistance (ODA) on Somalia. Volume 1, the macro-economic and fiscal volume, examines the economy-wide and public finance effects of ODA decline, including implications for GDP growth, consumption, imports, domestic revenue, and fiscal space.** This volume focuses on how the same financing shock is being experienced in select social sectors, the humanitarian sector, household welfare, and local economies. It looks at the practical effects of declining aid on service delivery systems, food security and nutrition, health, social protection, household coping, and local market activity.

The two volumes should be read together. The macro-economic and fiscal volume shows that ODA has been closely tied to Somalia's consumption-driven economy and fiscal position. Its estimates suggest that recent aid reductions could lower GDP growth by approximately 1.2 to 1.6 percentage points and reduce consumption growth by up to 2.2 percentage points. This volume examines how those macro-level effects are appearing on the ground through service closures, reduced household income, declining local demand, job losses, weaker municipal revenues, and rising pressure on already fragile delivery systems.

Somalia's humanitarian response has long been underwritten by unusually high levels of external financing. In 2022, donors covered nearly 89 percent of humanitarian appeal



requirements, support that was instrumental in averting famine during a historic drought. Financing declined sharply beginning in 2023, with coverage falling to roughly 43 to 45 percent, implying a reduction of approximately US\$1 billion in a single year. The contraction persisted into 2024 and deepened in 2025, when slightly more than one-quarter of a reduced appeal was funded. This shift reflects not a cyclical fluctuation but a structural change in Somalia's financing environment.

Over the past decade, ODA has been a central pillar of Somalia's economy, averaging roughly US\$1.6 billion annually, or about 22 percent of GDP. It has financed humanitarian response, service delivery, household support, and local economic activity. Its contraction is therefore a system-level disruption, especially as remaining aid is increasingly directed toward longer-term instruments that do not sustain frontline services in the short term.

This volume examines three closely related effects of the aid contraction. First, it assesses how declining external financing is reducing service coverage and operational capacity in selected humanitarian and social service sectors, particularly food security and nutrition, health, and social protection. Second, it examines how households are absorbing the shock through reduced consumption, negative coping strategies, rising out-of-pocket costs, and reduced access to basic services. Third, it looks at how aid contraction is affecting local economies in Baidoa and Kismayo, where humanitarian and development spending has supported employment, liquidity, business activity, and municipal revenues.

The analysis draws on sectoral data, humanitarian financing information, program reporting, and qualitative evidence from fieldwork. Forty key informant interviews were conducted between December 2025 and February 2026 with government officials, UN agencies, donors, NGOs, private sector actors, and affected communities in Mogadishu, Baidoa, and Kismayo. The field evidence is not intended to serve as a comprehensive national assessment. The geographic scope was limited, the number of interviews was modest, and several findings rely on available program and cluster-level data that remain uneven across sectors. In some cases, funding and coverage figures were changing quickly at the time of writing. Despite these limitations, the consistency of evidence across sectors and locations provides a clear picture of how declining ODA is affecting service delivery, household welfare, and local economic activity.

While the contraction of ODA presents serious risks, it also creates a moment for reflection and course correction. Somalia's service delivery model has long depended on external financing to sustain functions that the state could not yet finance or manage at scale. The current crisis exposes the limits of that model, but it also creates an opportunity to chart a more realistic path forward. This means reassessing what can be publicly financed, clarifying the role of government as steward and regulator, prioritizing



the most vulnerable, and building systems that are less fragmented and more fiscally grounded over time.

II. Development Context: A Donor-Reliant Social Service System Before the Decline

Somalia entered the current period of aid contraction with some of the weakest human development conditions in the world. After an absence of more than three decades, Somalia was again included in the Human Development Index rankings, as a marker of both institutional recovery and the depth of the country's human capital deficit. Poverty remains widespread, with the World Bank's poverty data showing more than half of the population living below the national poverty line. These development conditions are compounded by repeated climate shocks, displacement, conflict, and disease outbreaks, which have kept humanitarian needs structurally high rather than episodic. Over the past decade, humanitarian assistance has therefore functioned not only as emergency relief, but as a recurrent stabilizing mechanism for households, communities, and local service systems.

The health and social protection sectors illustrate this pattern clearly. Somalia's public health system has remained fragmented, under-resourced, and heavily dependent on external actors for financing, supplies, staffing, outreach, disease surveillance, and primary care delivery. WHO has estimated that 95 percent of Somalia's health care funding is supported by external donors, leaving the system highly exposed to shifts in international financing. Social protection has followed a similar trajectory. Before the establishment of World Bank-supported Baxnaano in 2019, Somalia did not have a national safety net program at scale. The Baxnaano program created the first state-led platform for predictable cash transfers to poor and food-insecure households, while also building early systems for targeting, payments, registration, and shock response. This represented an important institutional gain, but it was built largely through external financing rather than a durable domestic fiscal base.

This donor-reliant model reflected Somalia's fiscal reality. Although domestic revenue mobilization has improved over the past decade, it remains far below the level required to finance basic services. IMF reporting shows domestic revenue rising from 2.5 percent of GDP in 2022 to 2.8 percent in 2023, still well below the country's development and recurrent expenditure needs. As a result, public systems in health, nutrition, and social protection developed through a hybrid model in which government institutions provided policy direction and coordination, while donors, UN agencies, NGOs, and the World Bank financed and delivered much of the operational capacity. This is the baseline against which the current aid decline should be understood. The shock did not hit a self-financed service system with temporary donor supplementation. It hit a system in which



external financing had become the main source of continuity for essential services, household support, and crisis response.

Table 1: Pre-ODA decline social service baseline in Somalia

Indicator	Approximate pre-decline baseline	Why it matters
Poverty headcount	More than half of the population	Shows high household vulnerability before aid cuts
Domestic revenue	2.5 percent of GDP in 2022, 2.8 percent in 2023	Shows limited fiscal capacity
Public health financing	95 percent donor supported	Shows dependence of basic health services on external aid
National safety net	Baxnaano launched in 2019 with World Bank support	Shows that formal social protection is recent and externally financed
Humanitarian funding model	Large-scale recurrent appeals, especially during drought and displacement shocks	Shows humanitarian assistance functioning as a stabilizing system

The sections that follow examine aid contraction across service delivery systems, household welfare, and local economies, before drawing together the findings across systems.

III. SERVICE DELIVERY SYSTEMS

The first and most immediate effect of declining external financing is seen in the contraction of service delivery systems. This section examines how these changes are unfolding operationally and across key sectors, and what they mean for the continuity of essential services.

A. System Contraction at the Operational Level

At the operational level, the financing contraction has forced agencies into prioritization. Programming has shifted from needs-based planning to resource-constrained decision-making. As one UN agency staff member explained, ***“We are no longer planning***



against needs. We are planning against what we can sustain.” (KII, UN Agency Staff, Mogadishu, January 2026)

Many of the organizations interviewed for this paper indicated that portfolio contraction has resulted in a systematic narrowing of scope. Preventive services and resilience programming are being reduced first, while remaining resources are concentrated on immediate life-saving interventions. In practice, this represents a shift to minimum service provision.

FAO estimates that roughly 60 percent of its Somalia programming has been affected, while WFP anticipates suspending some operations following major donor withdrawals.¹ UNICEF and WHO report closures of health facilities and suspension of outreach services.

The operational shock is compounded by rapid erosion of capacity. Over 90 percent of national NGOs report staff layoffs, with 13 percent cutting more than half their workforce.² At the same time, 68 percent of INGOs have reduced international staff by up to 50 percent. These cuts translate into fewer operational teams and reduced continuity of services.

Field presence is also contracting, with over 63 percent of organizations reporting the closure of at least one field site, often with multiple sites shutting down simultaneously.

In Baidoa and Kismayo, respondents describe service withdrawal as abrupt. Programs stop without replacement. ***“There is no phase-out. One month services are there; the next, they are gone.”*** (KII, NGO Staff, Baidoa, January 2026)

B. Food Security and Nutrition

Somalia’s food security and nutrition situation has entered a new phase of crisis as humanitarian financing contracts sharply while needs continue to rise. Following years of climate shocks and chronic dependence on external assistance to stabilize consumption, the withdrawal of donor support since 2023 has reversed the gains that narrowly prevented famine in late 2022. ***“We are seeing needs rise again, but the system that held the line in 2022 is no longer there.”*** (KII, UN Agency Staff, Mogadishu, January 2026)

According to the 2026 Humanitarian Needs and Response Plan (HNRP), 4.8 million people now require humanitarian assistance, an increase from late 2025 IPC estimates

¹ FAO Somalia Programme Update 2025

² Somalia NGO Consortium, Member Survey on the Operational Impact of Aid Cuts in Somalia, 2025, internal/unpublished survey



and a clear indication that needs are deepening even as resources decline.³ Within this population, 1.85 million children remain acutely malnourished, many requiring urgent treatment to prevent irreversible developmental harm.

WFP, Somalia's largest food assistance provider, continues to face severe funding shortfalls. Monthly food and cash distributions fell from 2.2 million people in early 2024 to just over 600,000 beneficiaries by early 2026. As a result, only one in seven people in need is receiving life-saving support.⁴

This contraction is driven by a US\$98 million shortfall for Somalia's six-month food needs (January–June 2026), a gap in scale that has forced immediate program reductions rather than gradual adjustments.⁵

In the 2026 HNRP, the Food Security and Livelihoods (FSL) Cluster requirement has been reduced to US\$301 million, a 42 percent decrease from 2025.⁶ This reduction does not signal improved conditions. Rather, it reflects a shift from needs-based to resource-constrained planning as donors scale back commitments. ***“The plan is no longer about what is needed, it is about what is feasible under shrinking budgets.”*** (KII, Donor Representative, Nairobi, February 2026)

Nutrition services have contracted even more dramatically. The cluster now aims to reach 1.3 million people, representing a 43 percent reduction in targeted coverage compared to 2025.⁷

The 2025 funding gap has triggered widespread closures that continue to shape the 2026 landscape.⁸

According to UNICEF's program data for 2025:

- Outpatient Therapeutic Program (OTP) sites fell from 775 in January 2025 to 629 by mid-2025.
- Targeted Supplementary Feeding Program (TSFP) sites dropped from 617 to 300, a reduction of more than 50 percent.

By mid-2025, clinics had treated 253,000 children with severe acute malnutrition (SAM) and 413,000 with moderate acute malnutrition (MAM), but the contraction in geographic coverage has left many more without care. Health workers in Baidoa

³ OCHA Somalia HNRP 2026

⁴ WFP Somalia Situation Reports 2024–2026

⁵ WFP warns of catastrophic shortfalls in Somalia with millions at risk of deepening hunger crisis <https://www.wfp.org/news/wfp-warns-catastrophic-shortfalls-somalia-millions-risk-deepening-hunger-crisis#:~:text=But%20today%20WFP%20faces%20a,Notes%20to%20editors>

⁶ OCHA FSL Cluster Financial Tracking 2026

⁷ Nutrition Cluster Somalia 2026

⁸ OCHA Nutrition Cluster Financial Data 2025



reported treating more children despite having reduced services and fewer referral options.

Compounding these pressures, the 2026 OCHA Access Snapshot reports 53 access incidents in Q1 2026, defined as disruptions linked to insecurity or poor infrastructure that constrain humanitarian movement and service delivery. Conflict-related incidents were 87 percent higher than the 2025 quarterly average.

C. Health Services and Outcomes

Somalia's health system is structurally split between a dominant private sector and a heavily aid-dependent public system. Available estimates suggest that roughly two-thirds of Somalis seek care from private providers, while one-third access public or publicly supported services. Within this smaller public segment, external assistance plays a decisive role. According to WHO, between 90 and 95 percent of non-private health services are financed by donors.⁹ In this context, humanitarian health financing effectively functions as the operating budget for basic primary care, maternal health services, disease surveillance, and emergency response. ***“What we call humanitarian health in Somalia is, in reality, the health system.”*** (KII, Donor Representative, Nairobi, February 2026)

In 2025, the Somalia Health Cluster received only US\$26.7 million of its US\$122.4 million requirement, leaving a US\$95.7 million gap. For 2026, the appeal has been reduced to US\$80 million to reach 2.4 million people with the highest needs.

The contraction of U.S. funding has been particularly destabilizing. USAID previously financed large portions of primary care, reproductive health, mobile outreach, and vaccination campaigns. The abrupt contraction of this financing created what multiple respondents described as an “operational cliff.” ***“Entire service lines disappeared almost overnight—there was no transition, no bridging.”*** (KII, NGO staff, Mogadishu, January 2026)

Between 2024 and 2026, Somalia experienced a major contraction in health-system capacity. OCHA reports that over 200 health facilities have already closed, while up to 600 additional facilities are at risk of closure in 2026 due to funding shortfalls.

“Patients now bypass primary facilities and come directly to the main hospital, increasing pressure on hospital services.” (KII, Health Worker, Baidoa, January 2026)

The contraction of outreach, surveillance, and primary-care capacity is contributing to simultaneous outbreaks of multiple diseases across Somalia. These outbreaks are

⁹ World Health Organization, “Sustaining Health Services in Somalia amid Unprecedented Funding Challenges,” October 30, 2025



becoming more persistent and are being compounded by reduced financing for mobile teams, surveillance officers, and frontline health workers.

Vaccine-Preventable Disease Surges

- **Diphtheria:** More than 1,600 confirmed cases and 87 deaths were reported by August 2025, with WHO noting continued transmission into 2026 due to collapsed vaccination outreach and incomplete contact tracing.¹⁰
- **Measles:** Persistent transmission continues into 2026, especially in Banadir, Bay, Bakool, and Lower Juba, driven by the loss of mobile vaccination teams that previously delivered more than half of routine immunization doses in rural areas.¹¹
- **Cholera:** Outbreaks intensified in late 2025 and continued into 2026, with cases reported in Banadir, Middle Shabelle, Hiraan, and Lower Juba. Reduced surveillance and the closure of oral rehydration points have slowed early detection and response.¹²

The contraction of health services is having immediate and severe consequences for maternal and newborn health. Nationwide, only around 30 percent of health facilities remain fully functional and capable of providing emergency obstetric and newborn care.¹³ Frontline health workers report a rise in preventable complications, including obstructed labor, postpartum hemorrhage, and sepsis. These trends are closely linked to delayed care-seeking and the breakdown of referral pathways, as patients are forced to travel longer distances or forgo care altogether.

At the same time, the systems responsible for detecting and responding to health risks are deteriorating. The number of functional disease surveillance officers has fallen sharply since 2024, and in several regions fewer than 50 percent of expected weekly surveillance reports are being submitted. As WHO notes, early warning systems are no longer reliable in multiple districts, largely because many of the facilities that previously reported data have closed.¹⁴

D. Social Protection and Safety Nets

Somalia's social protection landscape is shaped by two parallel systems. At the household level, diaspora remittances function as a critical, informal form of social protection, helping households continue meeting basic needs despite income shocks.

¹⁰ Reuters, "Somalia Faces Diphtheria Surge amid Vaccine Shortages and Aid Cuts," August 19, 2025

¹¹ WHO Somalia Disease Surveillance Reports 2025–2026

¹² Ibid.

¹³ UNFPA Somalia, Humanitarian Response in Somalia, July 2025

¹⁴ WHO Early Warning Surveillance System Somalia



Outside these private transfers, formal social protection mechanisms remain primarily donor-financed and serve as the country's main formal buffer against drought, displacement, and price shocks. During the 2022 drought emergency, multi-purpose cash (MPC) assistance scaled rapidly and helped stabilize consumption and prevent a deeper humanitarian collapse. As the aid envelope tightened from 2023 onward, these programs were among the first to be reduced, precisely because they are financing-intensive and have no viable domestic substitutes at scale. Humanitarian cash and food assistance overall declined by an estimated 56 percent between early 2023 and mid-2025, with the number of people receiving monthly support falling from around 1.8 million to approximately 800,000, even as needs remained high.¹⁵

“Families are facing the loss of school feeding programs, safety net cash assistance, food aid, and water trucking services.” (KII, Somalia NGO Consortium staff, online, February 2026)

Somalia's national safety net program, Baxnaano, faces parallel constraints. Designed as a multi-year poverty-targeted initiative supported by the World Bank, the program has struggled to expand or even maintain coverage as donor grants decline. The World Bank's cash transfer envelope under the Shock Responsive Safety Net Project is approximately US\$359 million, with total program costs of about US\$418 million. The program primarily provides regular cash transfers to poor and vulnerable households, complemented by shock-responsive top-ups during crises, and is supported by systems for targeting, payment delivery, and beneficiary registration.

As of 2025–2026, Baxnaano continues to reach some households, but any expansion to meet drought-affected populations has stalled, and the program's long-term viability remains uncertain.

Delivery systems for safety nets, registration, verification, and monitoring are deteriorating at the same time as needs rise. Once staff disperse and systems collapse, rebuilding capacity becomes a multi-year effort.

“This reduction in personnel has limited the institution's operational capacity and ability to effectively deliver services and carry out its mandate.” (KII, Jubaland Ministry of Humanitarian Affairs Official, January 2026)

IV. HOUSEHOLD WELFARE IMPACTS

This section examines how households are adjusting to these changes, with a focus on consumption, coping behavior, and emerging risks to longer-term welfare.

A. From Consumption Stabilization to Survival

¹⁵ OCHA Cash Working Group Somalia 2025



Across Baidoa and Kismayo, households describe the withdrawal of assistance as abrupt and system-wide. Food assistance, cash transfers, and basic services were reduced at the same time, removing the primary mechanisms that had stabilized consumption.

For many households, humanitarian transfers represented their only reliable income stream. Their removal has left households with little capacity to absorb further shocks. In a context where poverty levels are already high, this shift has pushed many households from managing basic needs into survival mode. Because many aid-sector employees supported extended families, NGO layoffs rapidly increased the vulnerability of a much wider group of households.

“Since the assistance stopped, everything became difficult at once. We collect bones to boil for the children.” (KII, IDP Resident, Baidoa, January 2026)

B. Negative Coping and Asset Depletion

In response, households are adopting survival strategies that draw down productive assets and reduce future resilience. Common responses include skipping meals, prioritizing children’s consumption, selling livestock at sharply reduced prices, and shifting into low-return informal activities such as manual labor, rope making, and grass collection. Some households are also withdrawing children from school due to cost and food insecurity.

These strategies provide short-term relief but come at a long-term cost. Livestock distress sales are particularly significant, as they erode the primary asset base for recovery in rural and peri-urban economies. As assets are depleted, households lose their ability to respond to future shocks, increasing the risk of prolonged vulnerability.

C. Rising Costs and Reduced Access to Services

At the same time, the contraction of aid is shifting costs directly onto households. Services that were previously free are now either unavailable or require payment at a time when incomes are declining.

Households report increased out-of-pocket spending on medicines, longer travel distances to access water and health services, and delays in seeking care due to affordability constraints. Health facility closures in villages and smaller towns have increased costs for rural households, forcing them to pay for transport to larger cities where care often remains unaffordable. ***“Before, you could go to the clinic for free. Now you either pay or you wait until it becomes serious.”*** (KII, Community Member, Baidoa, January 2026)



The closure of primary facilities has concentrated demand in fewer locations, increasing congestion and waiting times. In Baidoa, demand has shifted to Bay Regional Hospital, while in Kismayo, rising caseloads are being managed by reduced staffing levels.

The burden of adjustment is not evenly distributed. Women report walking longer distances to access water, often at night, increasing exposure to protection risks and highlighting the gendered dimensions of the shock.

D. Human Capital Erosion and Long-Term Effects

These dynamics are generating longer-term risks that extend beyond immediate welfare. Reduced consumption, declining access to services, and rising costs are affecting nutrition, education, and health outcomes simultaneously.

Malnutrition increases vulnerability to disease, while illness and hunger disrupt school attendance. These effects are compounded by staff attrition and reduced capacity within the health system.

“A hungry child cannot learn.” (KII, Community Respondent, Kismayo, January 2026)

Together, these trends point to a gradual erosion of human capital. As households deplete assets, reduce investment in education, and lose access to essential services, the effects of the current shock are likely to persist well beyond the immediate crisis.

V. LOCAL ECONOMIC IMPACTS

This section examines how the contraction of aid is being transmitted through local economic systems.

A. Aid Contraction as a Liquidity Shock

In both Baidoa and Kismayo, aid functions not only as humanitarian support but as a primary source of local liquidity, financing household consumption, employment, and business activity. Its contraction is therefore experienced as an immediate withdrawal of cash from local economies, with effects that extend beyond direct beneficiaries.

Local actors describe this shift as visible and immediate. ***“There is less cash everywhere in the city.”*** (KII, Business Owner, Baidoa, January 2026) This reflects the central role that aid has played in sustaining economic activity in fragile urban environments.

B. Employment Loss and Labor Market Contraction

The reduction in aid-funded operations has led to a contraction in labor markets, affecting both formal and informal employment. Job losses extend beyond NGO staff to a wider network of roles linked to humanitarian operations, including logistics, service provision, and casual labor.



In Kismayo, one organization reported laying off 45 staff, while a construction firm reduced its workforce from 26 to 10 workers. These examples reflect a broader pattern in which employment opportunities are shrinking across sectors.

Local NGOs have also scaled down significantly, in some cases by as much as 75 to 85 percent. This has reduced subcontracting opportunities and reversed gains in localization, removing an important source of employment and income in these areas.

C. Demand Compression and Market Adjustment

The loss of income at both household and institutional levels is reducing demand across local markets. Businesses report lower turnover and declining activity across sectors such as retail, livestock trade, transport, and hospitality.

These changes are reflected in everyday market behavior. Households are reducing spending and consolidating living arrangements to manage costs. In Baidoa, rental markets have softened as laid-off NGO staff leave the area and local families consolidate households, resulting in higher vacancy rates and falling rents.

Businesses are adjusting accordingly, scaling back operations and focusing on core activities. ***“We reduced everything to what we could manage.”*** (KII, Business Owner, Kismayo, January 2026)

D. Municipal Revenue Decline and Fiscal Pressure

Municipal revenues are declining as business activity contracts. In Baidoa, local authorities estimate that municipal revenue fell by around 70 percent, reflecting weaker economic activity and reduced fee collection. Kismayo and Baidoa were already fiscally weak before the current shock, with shallow tax bases and limited support from federal or state governments.

Aid cuts have therefore left municipalities more exposed to multiplier effects. As household vulnerability rises and local economies weaken, municipalities face growing expectations with fewer resources to respond. This exposure is likely deeper outside federal and state capitals, where economic activity and employment opportunities are even more limited.

E. Business Contraction and Credit Tightening

Private sector actors report additional pressures that point to deeper economic stress. Donor-funded construction and infrastructure projects have been cancelled, removing a key source of business activity. Firms are reducing staff, cutting salaries, and, in some cases, closing altogether.

In Kismayo, businesses note that a significant share of economic activity, including training activities and related services, was previously linked to NGOs and UN



agencies. The disappearance of these activities has reduced both income and local spending.

At the same time, access to credit is tightening. Declining incomes are reducing repayment capacity and increasing lenders' perceptions of risk. This is limiting access to finance at a time when businesses need credit to adjust

The evidence from Baidoa and Kismayo points to a deeper set of structural weaknesses. Aid has been compensating for weak economic foundations, and its withdrawal is exposing underlying vulnerabilities, including limited economic diversification, high dependence on external spending, weak domestic revenue bases, and limited capacity to absorb labor shocks.

“Once the NGOs reduced operations, the whole town felt it.” (KII, Private Sector Actor, Kismayo, January 2026)

These constraints limit the ability of local economies to adjust. Without deliberate transition strategies, the current trajectory risks entrenching economic contraction, increasing poverty, and placing additional pressure on already fragile local institutions.

VI. HOW THE SHOCK UNFOLDS ACROSS SYSTEMS

The findings in the preceding sections show that the effects of declining ODA are not confined to individual sectors. They unfold across three interconnected systems: service delivery, household welfare, and local economies. Reductions in financing are first reflected in declining service coverage, suspended programs, facility closures, and reduced operational capacity. As services and transfers contract, households lose both access and income, forcing them to reduce consumption, delay care, sell assets, withdraw children from school, or shift into irregular and low-return work. At the same time, lower spending by aid actors and households reduces demand in local markets, affecting businesses, employment, credit, and municipal revenues.

This pattern is visible across the field evidence from Baidoa and Kismayo. Programs close without replacement, households adjust immediately to the loss of support, and local economies respond quickly to reduced liquidity. These effects are abrupt and cumulative rather than gradual or isolated. Service closures increase pressure on remaining facilities. Household coping strategies weaken future resilience. Reduced demand lowers business turnover and employment, which in turn further weakens household income and local revenue collection. The result is a feedback loop in which pressures across service delivery, households, and local economies reinforce one another.

These observed dynamics also align with the macro-economic and fiscal volume, which identifies consumption as a primary channel through which aid flows affect Somalia's

economy. In practice, this means that ODA reductions do not only reduce program budgets. They also reduce household purchasing power, local market activity, imports, employment, and fiscal performance. The local evidence presented in this volume therefore helps explain how the macro-level shock is experienced on the ground.

The table below summarizes how these effects are appearing across the two field locations.

Table 2: Summary of ODA Decline Impacts Across Systems

Impact Area	Reported in Both Locations	Immediate Effects	Secondary Effects	Systemic Risk
1. Service Delivery and Institutional Shock	MCH closures, outreach suspended; NGO and ministry staff layoffs	Reduced primary care, halted vaccination outreach, fewer mobile teams	Hospital overload, higher out-of-pocket costs, loss of skilled staff	Severe erosion of essential services and weakened state legitimacy
2. Household Consumption and Welfare Shock	Abrupt loss of cash, food, and water support	Negative coping (meal skipping, distress sales, irregular labor)	School withdrawal, delayed care, reduced nutrition, rising protection risks	Human capital erosion and long-term poverty traps
3. Local Economic and Liquidity Shock	Reduced NGO/UN presence	Lower demand in retail, transport, construction; job losses	Municipal revenue decline, tighter credit, business closures	Urban economic contraction and fiscal fragility
Cross-Cutting: Social Cohesion Stressors	Competition for informal work; frustration at aid points	Reduced trust in authorities and aid actors	Heightened risk of localized tension between IDPs and host communities	Social instability in high-density displacement areas

VII. FISCAL IMPLICATIONS: THE LIMITS OF DOMESTIC ABSORPTION

The preceding sections show that Somalia's aid contraction is already affecting service delivery, household welfare, and local economies. The fiscal implication is clear: these gaps cannot be absorbed through modest budget reallocations or domestic substitution at current revenue levels.



The analysis in the macro-economic and fiscal volume suggests that a US\$450 million reduction in ODA, combined with a US\$150 million reduction in on-budget grants, would reduce consumption growth by about 1.4 percentage points and GDP growth by about 1.2 percentage points. Under a larger shock of US\$600 million in ODA cuts and US\$200 million in grant reductions, consumption growth could fall by up to 2.2 percentage points and GDP growth by about 1.6 percentage points. These projections are consistent with the findings in this paper, where aid contraction is already being experienced through reduced household income, weaker market liquidity, job losses, service closures, and declining demand in local economies.

The fiscal constraint is especially severe because Somalia's domestic revenue base remains far below the scale required to replace externally financed social and humanitarian services. Domestic revenue remains around 3 percent of GDP, while ODA has averaged roughly US\$1.6 billion annually over the past decade and reached about US\$2.5 billion in 2024, equivalent to approximately 22 percent of GDP. This imbalance means that the systems described in this volume were not built on a sustainable domestic financing foundation. Health, nutrition, food assistance, cash transfers, outreach, surveillance, and much of the operational capacity of NGOs and implementing partners have depended on external financing. When that financing contracts, the government cannot simply assume the costs without displacing other core obligations.

The table below shows that across food security, nutrition, health, and social protection the combined 2025 funding gap is approximately US\$488 million, equivalent to approximately 130 percent of Somalia's projected domestically generated revenue. With roughly 85 to 90 percent of domestic spending absorbed by security and core operational costs, even partial replacement would require reallocations beyond current fiscal capacity. In practice, the financing gap is already translating into operational contraction across service delivery systems.

Table 3: Estimated Cuts in Humanitarian and Socioeconomic Spending by Sector, 2025

Sector	2025 HNRP Requirement, US\$M	Funding Received, US\$M	Funding Gap, US\$M	Percent Funded	Gap as Percent of Domestic Revenue
Food Security / WFP Operations	~392	~120	~272	~31%	~72%
Nutrition Cluster	101.1	~14	~87	~14%	23%
Health Cluster	122.4	26.7	95.7	22%	25%



Sector	2025 HNRP Requirement, US\$M	Funding Received, US\$M	Funding Gap, US\$M	Percent Funded	Gap as Percent of Domestic Revenue
Multi-Purpose Cash and Social Protection	60.6	26.8	33.8	44%	9%
Total	~676	~188	~488	~28%	~130%

Domestic revenue baseline: approximately US\$380 million in projected FGS domestic revenue for 2025. Figures are approximate and drawn from UN OCHA, HNRP 2025, and cluster-level reporting.

Food security, nutrition, health, and social protection all illustrate the same fiscal constraint. Food security and nutrition alone account for a combined 2025 funding gap of roughly US\$359 million, nearly equivalent to the entire projected domestic revenue base. The Health Cluster gap of US\$95.7 million would require domestic health spending to increase severalfold, while filling the remaining multi-purpose cash shortfall of roughly US\$33 million would require reallocating a significant share of domestic revenue to a single humanitarian cash program. **“There is no realistic scenario where domestic resources can replace this level of financing in the short term.”** (KII, FGS Official, Mogadishu, February 2026)

VIII. POLICY IMPLICATIONS AND RECOMMENDATIONS: MANAGING SYSTEMIC ODA SHOCK

The contraction of ODA is a system-wide shock that is degrading service delivery, eroding household welfare, and weakening local economies at the same time. Policy responses must therefore move beyond sector-specific fixes and focus on stabilizing interconnected systems under sustained scarcity.

The objective is not to restore previous levels of coverage, which is fiscally unrealistic, but to preserve core system functionality, stabilize household welfare, and limit economic contraction. Given the scale and structural nature of this shift, policy must move from expansion to **immediate stabilization** and **medium-term adaptation**.

The recommendations below distinguish between:

- **Immediate actions (0–9 months)** to prevent irreversible collapse
- **Medium-term actions (10–24 months)** to adapt systems to a lower-aid environment

A. IMMEDIATE ACTIONS: STABILIZE CORE SYSTEMS

1. Protect Life-Saving Service Delivery



- Establish a policy and financing strategy forum led by the Ministry of Finance and relevant institutions with human capital and emergency service delivery mandates.
- Define and enforce a **minimum survival service package** (emergency health, maternal care, SAM treatment, surveillance, and core WASH). This should be underpinned by a clear plan that sets out a path toward state-led provision, clarifies the respective roles of government, donors, and other actors, and establishes viable coverage targets.
- Launch urgent fundraising for short-term bridge financing to retain critical frontline workers and keep essential facility functions operating.

Expected Outcome

Critical facilities, frontline workers, and life-saving functions are preserved while government and partners agree on a realistic minimum survival service package.

2. Stabilize Household Consumption

- Maintain continuity of humanitarian cash transfers in areas at high humanitarian risk.
- Engage donors to fill critical social protection funding gaps, using existing programs as shock-containment tools and prioritizing current beneficiaries over expansion.

Expected Outcome

Existing cash and social protection platforms are used to reduce abrupt income loss, limit negative coping, and protect the most vulnerable households from deeper welfare decline.

3. Reset Donor Engagement Around Immediate Risk and Trade-Offs

- Reframe dialogue toward preventing service collapse, mortality spikes, and deeper household welfare decline under current financing conditions.
- Shift donor discussions from general funding gaps to explicit trade-offs, including what can be protected, what must be deprioritized, and what risks will increase if financing is not available.
- Request flexible or pooled financing where possible to protect the minimum survival service package across sectors and locations.

Expected Outcome

Donor dialogue is anchored in immediate operational risks, field evidence, and clear



trade-offs, improving alignment around preventing service collapse and protecting the most vulnerable.

B. MEDIUM-TERM PRIORITIES: ADAPT TO A LOWER-AID SYSTEM

1. Recalibrate the State's Role Around a Lean, Prioritized Service Model

The FGS should undertake a realistic review of what can be publicly financed and sustained in the social service sectors under current budget and capacity constraints.

Priority Actions

- Define and formalize a minimum service package within federal and state systems, focused on essential health, nutrition, social protection, and other core services that protect the most vulnerable.
- Prioritize scarce public resources toward those with the most acute needs and the fewest coping mechanisms.
- Shift the state's role toward stewardship where needed, with government setting standards, regulating providers, monitoring quality, coordinating actors, and protecting equity.
- Build predictable financing around prioritized services, ensuring that domestic and external resources are linked to the minimum service package rather than fragmented projects.
- Avoid unfunded expansion commitments by ensuring new policies, strategies, and service targets are costed and matched to realistic financing options before adoption.

Expected Outcome

A more credible and fiscally realistic social service system, with stronger state stewardship, clearer priorities, and improved quality and coordination, without prematurely assuming full public financing or direct state delivery.

2. Strengthen the Private Sector Role in Service Delivery and Livelihood Systems

- Expand structured partnerships with private providers in health, water, logistics, finance, and other priority sectors where they can improve continuity and coverage.
- Use public and donor funds to de-risk private participation in priority services, while maintaining clear standards on quality, affordability, and access.
- Monitor provider performance, pricing, service quality, and geographic coverage.



Expected Outcome

More diversified and resilient delivery and economic systems.

3. Institutionalize an Integrated ODA Shock Monitoring and Response System

The government should build from the immediate ODA shock dashboard toward a dedicated monitoring and response function within the Ministry of Finance. The function should be aligned with Somalia's existing disaster early warning and response systems, recognizing that droughts, floods, conflict, displacement, and other shocks frequently affect both financing needs and the timing, composition, and volume of ODA.

Rather than creating a parallel system, the ODA shock mechanism should draw on existing early warning data, institutional coordination arrangements, and response triggers, while adding a stronger focus on the fiscal, economic, and service-delivery consequences of changes in external financing.

- Track impacts across:
 - Service delivery
 - Households
 - Local economies
 - Public finances
 - Aid flows and financing gaps
- Integrate private sector data, humanitarian data, administrative data, real-time indicators, and information generated through existing disaster early warning systems.
- Establish shared indicators and triggers that identify when a disaster shock, deterioration in humanitarian conditions, or major change in ODA is likely to create critical financing or service-delivery gaps.
- Link analysis directly to budget decisions, donor dialogue, service prioritization, contingency planning, and disaster preparedness and response.

Expected Outcome

Government strengthens the integration of existing monitoring and response systems, enabling more proactive management of external shocks. Disaster early warning and ODA shock analysis jointly inform budget choices, donor engagement, contingency financing, and service-delivery decisions.



IX. CONCLUSION

Somalia is transitioning to a financing environment defined by constrained resources and increased volatility. This volatility is driven not only by declining aid flows, but also by external shocks, including the evolving conflict dynamics in the Middle East, which carry implications for remittance flows, trade routes, and global prices. The effects of this shift are transmitted across interconnected systems that reinforce one another.

The policy challenge is therefore one of preservation rather than expansion. Stabilizing core systems, protecting household welfare, and managing economic contraction are essential to preventing further deterioration. At the same time, this moment presents a narrow but important opportunity to build internal resilience and strengthen pathways for more self-reliant development, including through domestic revenue efforts, institutional consolidation, and more efficient use of limited resources. Without coordinated action across these areas, the current trajectory risks not only immediate decline but also the long-term erosion of institutional capacity, human capital, and economic viability.



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