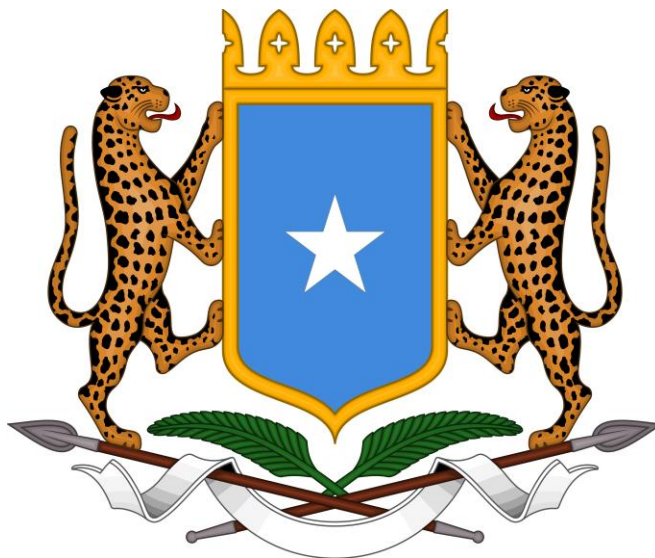




FEDERAL REPUBLIC OF SOMALIA
MINISTRY OF FINANCE

ODA CUTS TO SOMALIA

Quantifying the Impact and Charting Viable Policy Pathways (Volume I)

Implications on Economic Growth and Fiscal Trends

Policy Paper – June 2026
Working Paper Issue

Foreword

I present this flagship policy paper with our international partners and domestic stakeholders cognizant of the current moment as Somalia grapples with the most consequential question in its recent history: how shall Somalia calibrate its economic development agenda in the wake of the most significant cuts to official development assistance (ODA) experienced since the resumption of formal international engagements. Against the backdrop of a rapidly shifting of global aid architecture and the recurrent humanitarian crises Somalia faces, this paper draws on quantitative and qualitative evidence to inform Somalia's policy posture moving forward.



The policy paper measures the costs imposed by aid cuts and proposes a viable pathway for Somalia to sustain its economic development trajectory through greater domestic resource mobilization, fiscal consolidation and strengthening of humanitarian and basic social service systems needed to protect the most vulnerable.

The Federal Government of Somalia also recognizes that this watershed moment augurs uncertainty particularly for fragile states. Nonetheless, we rise to this challenge determined to protect hard-fought gains of institutional rebuilding, prudent policymaking while strategically leveraging every resource at Somalia's disposal. While the modality of our bilateral and multilateral engagements must inevitably adapt, the Federal Government does not mistake retrenchment for full retreat. On the contrary, we see this as an opportunity for Somalia to exercise policy leadership and adapt to this new normal.

As such, the policy paper advocates three fundamental principles on how the Federal Government of Somalia approaches the challenges ahead, tethering its focus to its medium- and long-term vision: (1) stabilizing core social and humanitarian services with a focus on the most urgent needs; (2) safeguarding social and humanitarian systems and delivery infrastructure; (3) establish a credible roadmap for greater domestic responsibility in financing and delivering public services. Binding all three is an overarching imperative: to strengthen Somalia's public finances and ensure that progress toward our human capital goals is progressively underwritten by domestic resources rather than international aid.

I will close this with a Somali saying: borrowed clothes do not protect you against the cold. It is in that spirit that Somalia confronts these challenges – drawing on the solidarity of the international community, while holding firm to our commitment to strengthen the foundations of our emerging welfare state, one necessary against all winds of change.

Acknowledgements

This policy paper was commissioned by the Federal Government of Somalia Ministry of Finance in early 2025 under the guidance of the Minister of Finance Bihi I. Egeh to provide quantitative and qualitative analysis of the immediate aftermath of aid cuts undertaken in early 2025. The paper, further, translates implications of the data using a robust conceptual framework for policy and programmatic responses. As such, due thanks are given to the authors of the policy paper: Mohamed M. Qamar (S. Economist and Economic Advisor to the Minister), Hodan Hassan (Owner of Kulan Consulting & Social Sector Expert) and Najibullah Isak (Director of Customs Directorate – FGS).

The authors are deeply indebted to colleagues within the broader research community among current partners of Somalia. The team expresses its foremost thanks to ODI for their invaluable contributions, iterative review of the findings and substantive technical guidance. Namely, Dustin Barter, Surer Mohamed, Jessica Pudussery, and Mike Pearson provided detailed input that materially strengthened the analytical and empirical foundations of the policy paper. The authors were fortunate to also receive substantive feedback from Mustafa Abdi Mohamed (Ph.D), senior economist at the UN Resident Coordinator's Office and Muhammed Khudadad Chatta, Senior Economist at the World Bank; their engagement further refined the policy paper in both its policy framing and its analytical precision.

Moreover, peer review from within Somalia's federal institutions sharpened the paper's policy grounding and ensured that the analysis remained anchored in the macroeconomic realities and the broader Somali context. The authors extend particular thanks to Uweis A. Ali, Chief Economist at the Office of the Prime Minister; Dr. Abdisalam Mohamed, Director General of the Somali National Bureau of Statistics; and Hassan A. Hosow, Chief Economic Advisor to the President and Executive Director of the National Economic Council, for their careful reading of working drafts and the candor of their feedback.

Most importantly, this policy paper stands on the shoulders of prior research on development aid and institutional insights inculcated through robust capacity building of Somalia's federal institutions. Though this policy paper was borne by the seismic shift in the global development landscape, the policy direction of this policy paper would not exist without the cumulative learnings gained from Somalia's evidence base.



Table of Contents

Foreword	1
Acknowledgements	2
Table of Contents	3
Acronyms	4
Tables and Figures	7
Executive summary	1
I. Introduction	4
II. Somalia's Structural Dependency on ODA	8
III. Demand Drivers for Development Finance in Somalia (2012 – Present Day)	14
Economic and Socioeconomic Profile of Somalia	14
Institutional Reform and Fiscal Capacity	20
ODA Complementarity with Somalia's National Development Vision	23
IV. Quantitative Framework for Measuring the Impact of ODA Cuts	24
Macroeconomic Transmission: Demand-Side Elasticities to ODA	24
Fiscal Performance: Revenue and Expenditure Linkages to ODA	26
Socioeconomic Service Delivery: Dependency on ODA Flows	30
V. Impact of ODA Cuts – Preliminary and Prospective Effects	33
Economic Impact of ODA Cuts - Overview	33
Quantifying ODA Cuts on GDP and Consumption Growth	35
Quantifying the Fiscal Impacts	37
VI. Proposed Programmatic and Policy Options – Pathways for Self-sufficiency and Resilience	39
1.) Augmenting Tax Collection towards Domestic Resource Mobilization	39
2.) National Customs Harmonization and Transitioning to Ad Valorem Taxation	42
3.) Operationalizing Prudent Public Financial Management Across FMS	43
4.) Development Finance Strategy Formulation	45
VII. Proposed Policy Matrix and Sequencing	46

VIII.	Conclusion	47
IX.	Appendices	49
	Technical Note	49
	Regression Results	52
X.	References	55

Acronyms

AfDB	African Development Bank
ARDL	Autoregressive Distributed Lag Model
CBS	Central Bank of Somalia
CET	Common External Tariff
DAC	Development Assistance Committee
DFI	Development Finance Institution
DFS	Development Finance Strategy
DRM	Domestic Resource Mobilization
EAC	East African Community
ECF	Extended Credit Facility
ECM	Error Correction Model
EU	European Union
FGS	Federal Government of Somalia
FMS	Federal Member States
FSNAU	Food Security and Nutrition Analysis Unit
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure



GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
GPE	Global Partnership for Education
HALE	Healthy Life Expectancy
HFCE	Household Final Consumption Expenditure
HIPC	Heavily Indebted Poor Countries
HNRP	Humanitarian Needs and Response Plan
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
IPC	Integrated Food Security Phase Classification
IRC	International Rescue Committee
MDB	Multilateral Development Bank
MENA	Middle East and North Africa
MoF	Ministry of Finance
MoPIED	Ministry of Planning and International Economic Development
MPO	Macro Poverty Outlook
MTRR	Medium-Term Revenue Roadmap
NDP	National Development Plan
NEC	National Economic Council
NTP	National Transformation Plan
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
ODI	Overseas Development Institute



OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PFM	Public Financial Management
PIM	Public Investment Management
PMO	Prime Minister's Office
PPP	Public-Private Partnership
RCO	Resident Coordinator's Office
SIPS	Somali Instant Payment System
SNBS	Somali National Bureau of Statistics
SOMCAS	Somalia Customs Automated System
SSA	Sub-Saharan Africa
TA	Technical Assistance
UCoA	Uniform Chart of Accounts
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WASH	Water, Sanitation and Hygiene
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WHO	World Health Organization
YoY	Year-on-Year
YTD	Year-to-Date

Tables and Figures

FIGURES

Figure 1: Graphical Model of Empirical Strategy

Figure 2: Level of ODA Disbursements to Somalia (2000–2024)

Figure 3: Composition of ODA Disbursements to Somalia

Figure 4: Sector Allocable ODA Disbursements to Somalia by Sector (%)

Figure 5: ODA Disbursements (All Sector Allocations) – Top 6 Donor Countries

Figure 6: Somalia Real GDP (2022 US\$ Prices)

Figure 7: Somalia GDP Per Capita Trends

Figure 9: Somalia's HIPC Process: Timeline and Implemented Reforms

Figure 11: Somalia Domestic Revenue Collection Trends (2012–2024)

Figure 14: Somalia GDP and ODA Per Capita Trends

Figure 15: Somalia Fiscal Inlays and Aid Assistance

Figure 17: Social Sector Expenditure (On-Budget) in Somalia

Figure 18: Breakdown of Social Sector ODA Allocations (On-Budget Support)

Figure 19: Distribution of Humanitarian Assistance by Area of Support in 2024

Figure 21: MPO Economic Projections by World Bank – Spring Meetings 2025

Figure 22: MPO Economic Projections by World Bank – Annual Meetings 2025

TABLES

Table 1: Net ODA Disbursements Received (in US\$ millions)

Table 2: ODA Disbursements to Somalia by Country – Top 6 Donors (in US\$ millions)

Table 3: Annual GDP Growth – Real Terms (%)

Table 4: Human Capital Indicators for Somalia and Comparators

Table 5: Fiscal Profile of FGS and FMS Governments (2024)

Table 6: Estimates of ODA Impact on Economy – MoF, IMF/WB, and NEC



Table 7: Annual Domestic Revenue Performance – Year-on-Year (%)

Table 8: Composition of Domestic Revenue: Key Inlays (% Share)

Table 9: Government Expenditure in US\$ Millions (2020–2025)

ODA Cuts to Somalia: Quantifying the Impact and Charting Viable Policy Pathways (Volume I)

Implications on Economic Growth and Fiscal Trends

Executive summary

Somalia stands at a critical juncture in its development path, facing sharp reductions in overseas development aid (ODA) and a limited set of choices in the face of a global paradigm shift in the development aid landscape. This comes at a time when its economy, fiscal system, and social sectors remain highly aid-dependent. For more than a decade, ODA has been a central pillar of Somalia's macroeconomic stability, institutional rebuilding, and provision of human capital and humanitarian support. Since 2010, ODA averaged approximately US\$1.6 billion annually. As of 2024, ODA flows amounted to around US\$ 2.5 billion or approx. 21% of Somalia's GDP in 2024 (SNBS 2024). These flows have financed humanitarian response, supported development projects aiming to rebuild the country's health, education, and social protection systems, and underwritten key government operations during Somalia's post-2012 state reconstruction. More importantly, the role of ODA grew measurably over the years as the most important source of development finance.

Beginning in 2024, several major Development Assistance Committee (DAC) donors initiated significant reductions in aid commitments, with further declines projected through 2027. This synchronized retrenchment was markedly hastened with the United States announcing significant cuts to their share of global ODA flows, this representing a structural shift in the global aid landscape. The authors of this policy paper estimate the total ODA cuts for 2025 to be approx. 25 percent¹. Countries with limited domestic fiscal capacity are particularly vulnerable to seismic shifts in ODA flows; Somalia is among the most vulnerable in that regard. Domestic revenue remains extremely low at roughly 3 percent of GDP, while the economy continues to rely heavily on ODA and remittance inflows. Taking stock of both the structural persistence of Somalia's ODA dependency coupled with the suddenness of ODA cuts, this policy paper leverages the analytical approach below to estimate the impact of ODA cuts.

¹ The authors explain the methodology used to estimate this figure in addition to the underlying rationale in using this figure further in the main body of this paper.

Analytical Approach

This paper in two volumes seeks to assess the macroeconomic, fiscal (Volume I), and socioeconomic implications of declining ODA to Somalia (Volume II) in an accompanying paper. The analysis across both volumes combines dynamic regression analysis with qualitative field research conducted in Mogadishu, Baidoa, and Kismayo.

The quantitative analysis uses time-series data covering expenditure-side GDP components, external financing flows and fiscal inlays from 2012 to 2024 to estimate how changes in ODA flows affect key macroeconomic variables, including consumption, imports, domestic revenue, and GDP growth. These relationships are then used to simulate plausible aid-reduction scenarios towards estimating the size of the impact. The quantitative analysis also examines the preliminary effects of financing for social service delivery and humanitarian assistance as an added dimension. The quantitative analysis is complemented by field interviews with government officials, humanitarian agencies, private sector actors, and community representatives, providing insight into how aid contraction is affecting service delivery systems and local economies.

Macroeconomic and Fiscal Effects

The analysis projects that reductions in ODA will have measurable macroeconomic consequences in the near term. Under a scenario in which ODA declines by US\$450 million and on-budget grants decline by US\$150 million, the model estimates that consumption growth would decline by approximately 1.4 percentage points (p.p.), while GDP growth would decline by roughly 1.2 p.p. relative to baseline projections. The larger shock scenario involving a US\$600 million reduction in ODA and US\$200 million reduction in grants produces deeper economic slowdowns, causing a decline in 2025 GDP by 1.6 p.p. and consumption growth projection by 2.2 p.p. These effects are rooted in Somalia's consumption-driven economy and consumption being the primary channel through which ODA flows are transmitted through the economy.

The macroeconomic slowdown, in turn, quickly translates into fiscal pressures. On-budget grants finance a substantial share of Somalia's government expenditures, while domestic revenues largely cover base payroll obligations. As aid declines, fiscal space tightens and the government's ability to sustain key expenditures becomes increasingly constrained. Though the model used estimated a downward projection of domestic revenue growth by 1.6 p.p., actualized domestic revenue growth underperformed by 2 times the estimate.

Service Delivery and Humanitarian Impacts

The effects of declining ODA are most visible in social and humanitarian sectors. External assistance finances the majority of Somalia's humanitarian food assistance, non-privatized health services, and social protection programs. Current funding gaps across food security, health, nutrition, and cash transfer programs already exceed the government's entire domestic revenue base.

Moreover, ODA cuts have also triggered a rapid collapse in the scope of Somalia's social and humanitarian service delivery, coinciding with heightened climate stressors. Cuts have left core humanitarian sectors funded well below 30 percent of requirements, creating financing gaps that exceed Somalia's annual net domestic revenue making substitution with any domestic funding impossible in the foreseeable future. Food assistance has been scaled back by more than 50 percent since 2023. As of March 2026, a projected 6.5 million people face acute food insecurity. (OCHA, 2026), 1.8 million children are malnourished, while nutrition and health clusters face 80-90 percent funding gaps. This has driven widespread closures of health facilities across parts of the country.

Field research conducted in Baidoa (capital of Southwest State) and Kismayo (capital of Jubbaland) suggests that aid contraction has rapidly affected vulnerable communities dependent on aid, effectively serving as a local economic shock. In these cities, humanitarian and development programs act as important economic anchors, supporting local employment and generating demand for services, housing, and small business activity. As programs scale down, local liquidity weakens, employment declines, and municipal revenues come under pressure.

Policy and Programmatic Interventions

The decline in ODA therefore represents more than a temporary funding shortfall. It reflects a broader reconfiguration of development finance, posing especially pronounced risks for fragile states with limited domestic fiscal capacity. Without deliberate policy responses, abrupt aid contraction could reverse institutional gains achieved since 2012, incur economic hardship and weaken already fragile service delivery systems.

To manage this transition, the paper proposes a set of policy actions aimed at catalyzing necessary macro-fiscal reform towards adopting to the new normal while aiming to stabilize core social services funded by ODA, the latter being expounded on in Volume II.

- **Augmenting tax collection through greater enforcement of undertaxed and untaxed sources** – this would entail greater enforcement of tax collection from

current tax streams in addition to introducing further taxes while mitigating potential distortionary effects.

- **Stabilizing human capital service delivery** – the Somali government will need to rise to the occasion by preparing human capital service provision plans that align domestic financing goals with human capital service provision initiatives, providing minimum health and education service continuity in collaboration with international partners, all while gradually increasing government ownership in financing these public services.
- **Harmonizing national customs collection and PFM integration across entire country** – this takes stock of continual efforts in sustaining greater domestic resource mobilization (DRM), tangible strides in fiscal federalism efforts and fast-tracking preconditions to economic integration with East Africa Community (EAC).
- **Continuing the preparation of regular Development Finance Strategies for Somalia** – though a more forward-looking aspiration, the Ministry of Finance recognizes how integral it is to proactively plan for its economic development and national financing needs.

Managing this transition will require coordinated action by the Federal Government of Somalia, federal member states, and international partners. The choices made in the coming years will determine whether declining ODA becomes a destabilizing shock or an opportunity to strengthen fiscal resilience and economic self-sufficiency.

I. Introduction

Official Development Assistance (ODA) has long played a central role in financing development and humanitarian response in low income and fragile states. Across Sub Saharan Africa, aid has supported public service delivery, infrastructure investment, and institutional reform where domestic fiscal capacity remains limited. For countries emerging from conflict, external assistance has often provided the resources necessary to rebuild state institutions and maintain basic services.

However, recent developments suggest that the global aid landscape is entering a period of structural change. After reaching record levels in the early 2020s due to the COVID-19 pandemic, ODA began to decline in 2024 as several major donor governments reduced development aid allocations. These reductions reflect fiscal pressures in donor countries, shifting geopolitical priorities, and a growing emphasis on more targeted development financing. Because development and humanitarian assistance remain concentrated among a relatively small number of major donors, simultaneous reductions among these countries are expected to yield significant financing shocks for highly aid dependent states. Somalia stands prominently in this list of nations.

Somalia's Vulnerability to Aid Contraction

Since the establishment of the Federal Government in 2012, external assistance has played a central role in supporting Somalia's recovery from decades of conflict and state collapse. ODA has financed humanitarian responses to recurrent droughts and floods, supported institutional reforms associated with the Highly Indebted Poor Countries initiative, and funded major investments in health, education, and social protection systems. Over the past decade, **ODA has averaged roughly US\$ 1.6 billion or 22-23 percent of Somalia's GDP since 2010, making it one of the largest sources of financing in the economy.** At the same time, domestic fiscal capacity remains extremely limited. Despite improvements in revenue administration since 2012, domestic revenue collection remains below 3 percent of GDP, among the lowest levels globally.

Somalia has, hence, been tethered to externally finances, broadly, and ODA, in particular, due to the following structural characteristics:

- **A narrow domestic production base** – Somalia is locked in a low equilibrium where the economy is skewed towards low-value agricultural production, agriculture accounting for approx. 65% of GDP (NEC, 2025). Exports of livestock, in particular, 62% of all exports in 2024 (CBS, 2024) and makes up around 9% of Somalia's GDP (NSBS, 2024).
- **High reliance on imports for consumption goods** – Somalia has historically run a significant trade deficit amounting to 61 percent of GDP on average over the last 3 years (2022-24), reaching 68 percent of GDP in 2024. Imports surged a further 23.8 percent in 2024; it outpaced export growth by a multiple of two, further widening the trade balance and structurally cementing Somalia's reliance on external financial flows (SNBS, 2024).
- **Limited domestic fiscal buffers** – notwithstanding the low levels of domestic revenue (tax and non-tax revenue) collected by Somalia, domestic revenues are only able to cover recurrent expenses of government while social service delivery and humanitarian aid are exclusively financed by ODA.
- **Persistent vulnerability to climate shocks and displacement** – Somalia experienced five failed rainy seasons between 2021 and 2023, followed by renewed drought conditions in 2026 (OCHA 2026).

The abovementioned highlights the disproportionate impacts ODA cuts have had on Somalia. Putting this into perspective, Somalia's ODA flows from its largest country donor, the United States, went from US\$ 420 million in 2024 to being completely halted in 2025 (Devex, Jan 2026). By the end of 2025, Somalia's US\$ 1.4 billion humanitarian

response plan had only received roughly a quarter of required aid, i.e. US\$ 370 million (UN News, Dec 2025).

Purpose of the Policy Paper

This paper, commissioned by the Somalia Ministry of Finance (MoF), examines the implications of declining ODA for Somalia's economy, fiscal system, and social sectors. The analysis focuses on three central questions:

- **How dependent is Somalia's economy, public sector and social/humanitarian sectors on external development assistance?**
- **Through what macroeconomic and fiscal channels are reductions in ODA likely to affect economic activity and government operations? Moreover, how dependent is social sector spending and resultant outcomes on ODA flows?**
- **What policy actions can help reduce vulnerability to aid volatility while sustaining essential services during a period of transition?**

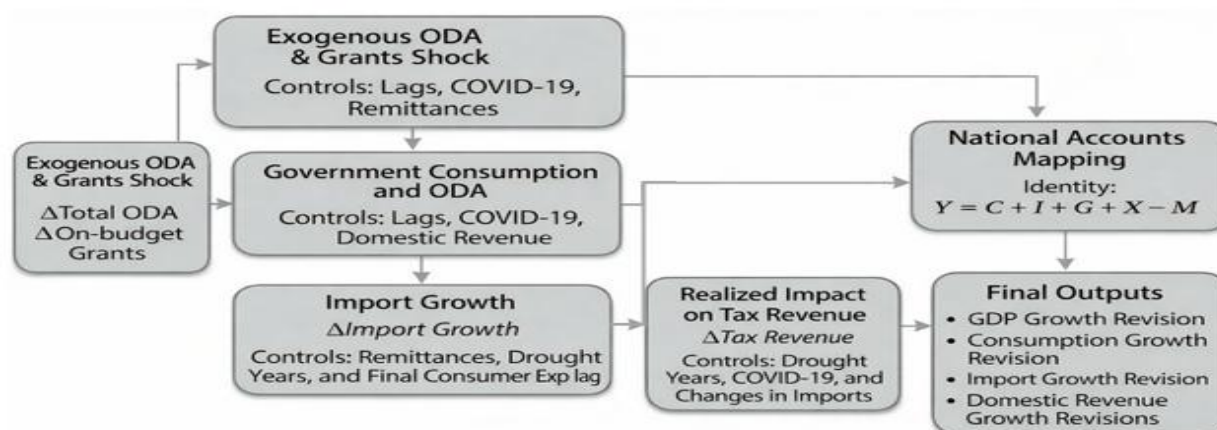
The paper will endeavor to answer the above questions using a mix of quantitative and qualitative data, and robust analysis appropriate for Somalia's context.

Empirical Strategy and Methodology

To assess the likely impacts of aid cuts, the MoF team used a combination of econometric analysis of time series data complemented with qualitative field studies conducted in Jubaland and Southwest State, two of Somalia's Federal Member States (FMS). The time series dynamic regression analysis leverages macroeconomic and fiscal data covering 12-14 years, linking growth in household and government consumption to changes in ODA and on-budget grants during this period. The model also incorporates lag structures to capture any persistence, where feasible, and controls (e.g. crisis years, alternative forms of ext. financing, etc.) to reduce confounding results from major discrete shocks.

The estimated results (coefficients) are interpreted by the team as suggestive elasticities of areas of concern with ODA; namely, the percentage growth expected in consumption (household & government), imports, and domestic revenue from 1 percentage change in ODA flows and/or on-budget grants. The ultimate objective of this exercise, in turn, is to extrapolate estimated GDP (relative to baseline projections) from changes in the projected growth of our variables of concern. The baseline figures used in the analysis are World Bank Macro Poverty Brief (April 2025) projections for macro-fiscal variables.

Figure 1: Graphical model of empirical strategy



Notes:

- Boxes labeled “Dynamic Regression” are estimated relationships.
- “National Accounts Mapping” enforces accounting consistency.
- Present results as stress-test scenarios (ranges) rather than point forecasts.

This empirical strategy and transmission have clear precedent in the aid-absorption literature, which formalizes that “absorbing” aid requires it to be reflected in domestic expenditure components (including household and government consumption) and often in higher net imports, depending on how the inflow is spent and accommodated (Temple & Van de Sijpe, 2017). It is also consistent with evidence that a substantial share of aid is reflected in consumption and frequently materializes via imported non-capital goods—reinforcing the relevance of a consumption-to-imports pathway in highly import-dependent settings (Werker, Ahmed & Cohen, 2009). On-budget grant support linked to IMF program conditionality has been associated with improved domestic revenue mobilization in highly aid-dependent countries, suggesting that grant contraction poses risks not only to expenditure but to revenue reform trajectories (Crivelli & Gupta, 2016). These findings reflect how ODA is mobilized towards strengthening fiscal authorities in Somalia, under the auspices of the IMF Extended Credit Facility (ECF) program.

Lastly, the quantitative analysis is complemented by structured qualitative research conducted between December 2025 and February 2026 in Mogadishu, Baidoa, and Kismayo. These locations were selected because of their high levels of aid dependence, concentration of internally displaced populations, and large humanitarian and stabilization programs. Interviews with government officials, humanitarian agencies, private sector actors, and community representatives provide additional insight into how reductions in aid flows are affecting service delivery systems and local economic activity.

II. Somalia's Structural Dependency on ODA

Over the past two decades, Official Development Assistance (ODA) has remained a central pillar of external public financing for low income and fragile states. ODA expanded significantly between 2000 and 2023, reaching historic highs in the early 2020s. It also exhibited a clear countercyclical function, expanding during periods of global crisis, including the COVID-19 pandemic. Across sub-Saharan Africa, where fiscal capacity remains structurally constrained relative to public service needs, ODA has filled persistent financing gaps in health, education, humanitarian response, and governance reform.

While aggregate ODA volumes from providers increased in real terms over the 2000 to 2023 period, the composition of ODA evolved. Bilateral development projects and technical cooperation have consistently represented the largest share of total ODA. Multilateral flows form the second largest component, reflecting the growing role of multilateral institutions as financing and implementation platforms. Humanitarian assistance has expanded in relative importance since the mid-2010s, driven by repeated climate shocks, conflict, and displacement crises. It is also important to note that a growing share of reported ODA in recent years has included in-donor refugee costs, which affects the net resources reaching recipient countries

Global ODA Retrenchment

The upward trajectory of global ODA, however, reversed in 2024. Aggregate ODA declined by approximately 9 percent in real terms, with projections suggesting a further contraction of 9 to 17 percent in 2025. This marks the first time that contemporaneous reduction of ODA among the largest DAC donors in nearly three decades.

Table 1: Net ODA Disbursements Received – in US\$ millions

Recipient	2019	2020	2021	2022	2023	2024
Developing countries (globally)	163,609.8	194,793.4	204,518.8	245,802.6	260,156.7	254,796.1
Sub-Saharan Africa (SSA)	50,501.8	63,917.4	59,989.5	57,839.2	63,184.9	67,148.9
Somalia	1,720.5	3,045.7	2,407.8	1,950.9	2,183.6	2,512.6

Source: OECD website

Global ODA flows to the developing world primarily came from a small group of ten DAC donors, namely consisting of the United States, Germany, Japan, the United Kingdom, France, Sweden, Netherlands, Norway, Canada and Italy being the largest ten donors over the last 2 decades by order of amount disbursed; these ten donor countries have contributed 85 percent of all ODA originating from DAC and 56 percent of all ODA

disbursed during this period. In nominal terms, the scale of ODA flows from these 10 countries averaged US\$ 108 billion over the last 10 years, climbing to US\$ 127 billion per annum between 2020-2024 (OECD). It is for this reason that the current trends of ODA retrenchment are acutely pertinent to the development and humanitarian needs of developing countries. Though precipitous reductions in ODA were initially triggered by aid cut announcements from the United States, the trend of reducing global ODA commitments had already commenced in 2024 among key DAC donors.

The United Kingdom pulled back aid allocations for Africa and MENA in 2025/26, explicitly naming Somalia alongside South Sudan, Ethiopia and Sudan as recipient countries being directly affected (IRC, Jul 2025). Further cuts are expected from the U.K. given the drawdown in global allocations of ODA from its current 0.5 percent of GNI to 0.3 percent of GNI by 2026/27. Germany, similarly, decreased its ODA commitments by 17.2 percent in 2024, i.e. US\$ 39 billion to US\$ 32.4 billion (OECD, 2025); this figure expected to further drop in 2025 based on official statements on the proposed 2025 budget (Donor Tracker, 2025). Similarly, France announced US\$ 808 million in cuts in 2024 and a more drastic reduction of US\$ 1.5 billion in 2025 (Donor Tracker). Sweden has also announced significant cuts to their ODA contributions.

This concentration risk of ODA cuts among this group of donors is also mirrored in Somalia's aid receipts; the five countries that comprise Somalia's five largest bilateral ODA donor countries are also the five largest donors of ODA, globally. Collectively, they have disbursed over US\$ 1.2 billion of the US\$ 2.5 billion mobilized by DAC donor countries in 2024. Prominent in that list across all years (2019-2024) is the United States, its average contributions standing at 28 percent of all ODA funds deployed to Somalia (OECD).

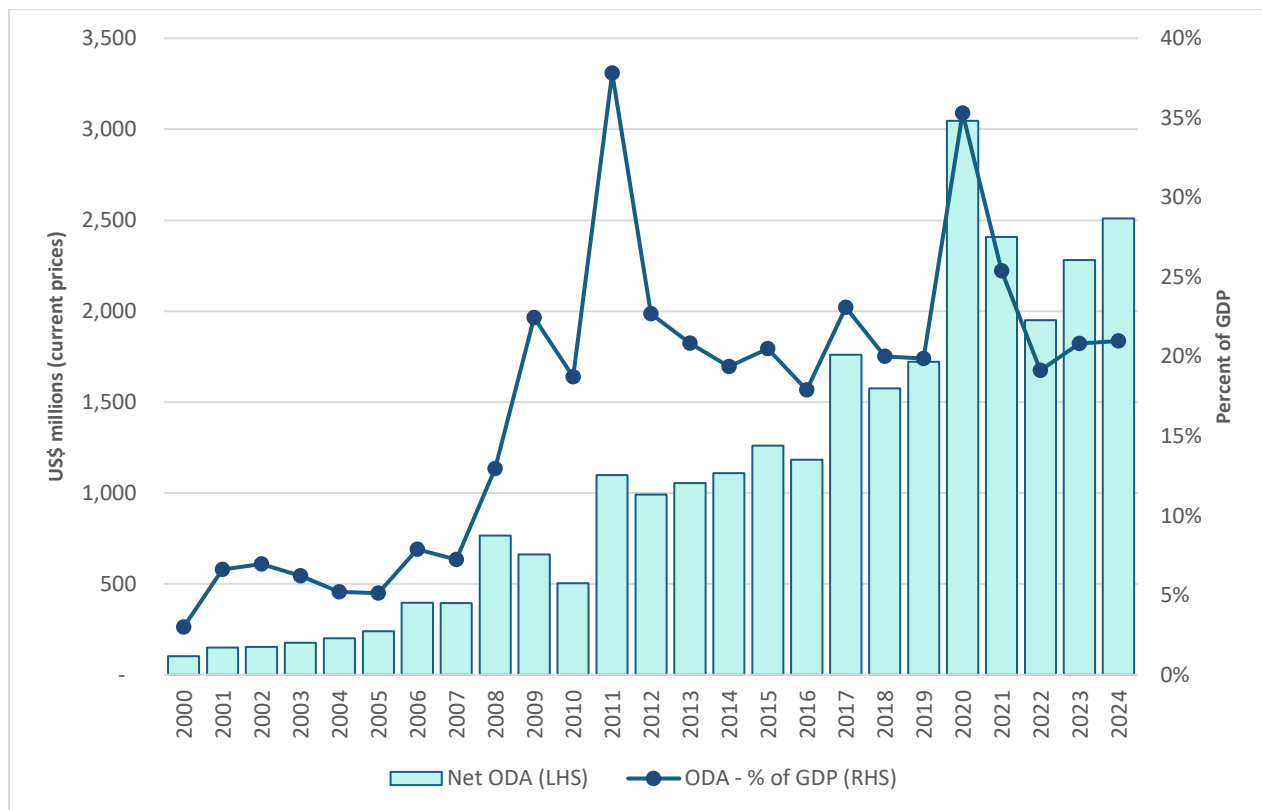
Table 2: ODA disbursements to Somalia by country - top 6 donors (in US\$ millions)

Donors	2019	2020	2021	2022	2023	2024
Official donors	1,721	3,046	2,408	1,951	2,184	2,521
United States	470	690	470	519	981	736
United Kingdom	224	298	139	123	121	183
Germany	158	205	171	133	141	105
France	2	448	21	8	12	105
Japan	14	20	22	30	26	75

Source: OECD website

The shifting sands of multilateralism compounded by progressive donor fatigue, thus, uniquely affects countries such as Somalia, both an aid dependent and fragile country. On average, ODA, which largely remains off-budget, forms 22% of the country's GDP over the last decade and rising to 24% in the last 5 years. The visible spikes in development aid to Somalia, in absolute terms and as a share of GDP, reflect the procyclicality of aid in sync with the country's development needs and the recurrent humanitarian and climate shocks that grip the country (IMF/WB 2025).

Figure 2: Level of ODA Disbursements to Somalia (2000–2024)



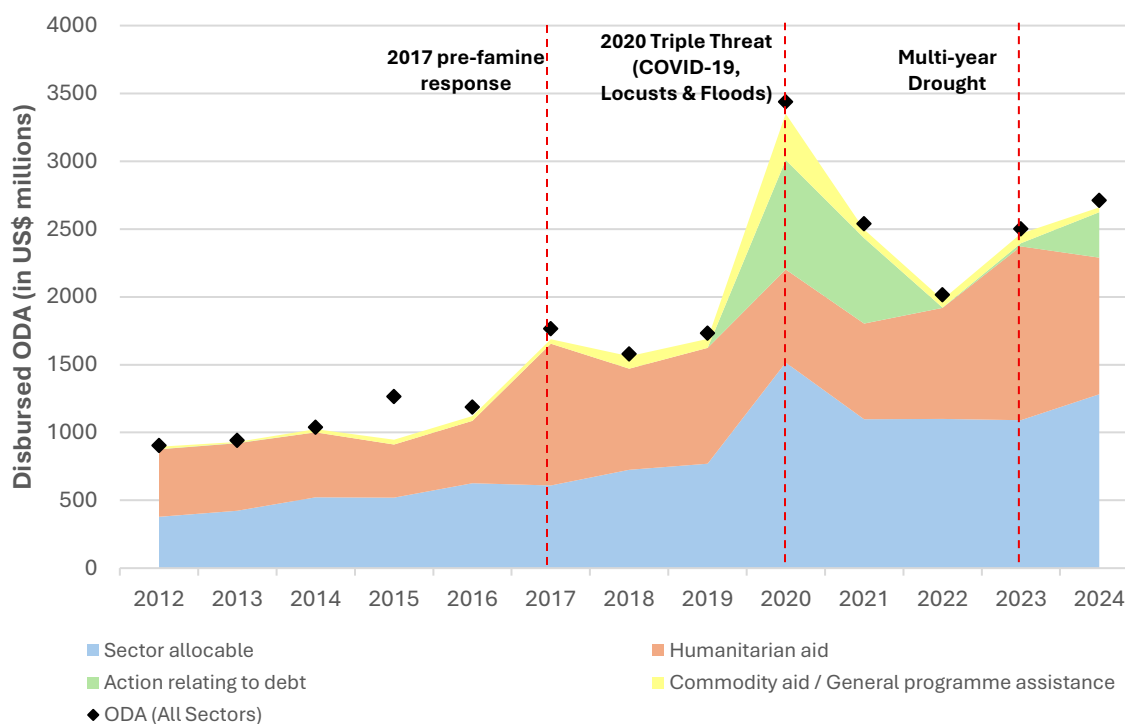
Source: Authors calculations of ODA and GDP data from WDI

Demonstrating Somalia's immense dependance on aid, net ODA grew from a single digit of approximately 7 percent of GDP in 2001 to 21 percent in 2024, peaking above 35 percent in 2020. This steep rise in annual aid inflows is pronounced in aid flow data from 2008 onwards. While the episodic spikes were driven by extraneous shocks, the generally high aid flows that followed reflect the structural shift towards financing earmarked for state-building, stabilization and development finance. This, in addition to showing a growing absorptive capacity of both beneficiary and implementing agencies, heightens vulnerability to donor retrenchments. The years 2008-09, 2011, 2017 and 2020 show a surge in aid as emergency inflows cushioned climate shocks (drought and floods), humanitarian crises and COVID-19 pandemic

emergencies to unprecedented levels based on preceding trends. The sectoral concentration of aid is evident from disbursed ODA flows in Figure 3.

Within the development finance bracket, allocation of ODA flows to Somalia were earmarked predominantly for governance (public policymaking, electoral processes & peacekeeping), health and education programs, this cluster receiving 80 percent of all development aid since 2012 (OECD data). The composition of development aid reflects Somalia's post-2012 reform trajectory and urgent sectoral/humanitarian needs. Aid supported HIPC-related governance reforms, the rebuilding of public service systems, and the use of humanitarian assistance as a buffer during recurring shocks. It is especially due to the fact that Somalia's development path has been stymied by recurring shocks. What is more concerning is when parsing through the most prominent donors towards sector-specific development finance and humanitarian aid, the top donors are also leading the charge of cuts to ODA commitments.

Figure 3: Composition of ODA Disbursements to Somalia

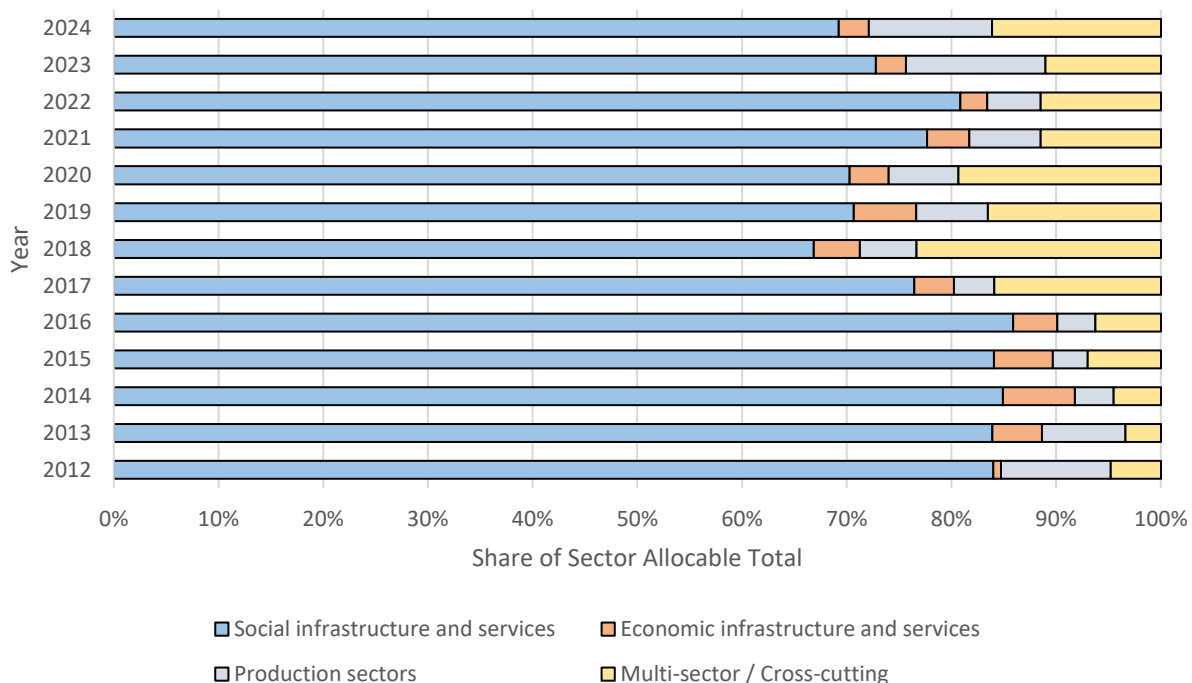


Source: OECD ODA Data (CRS flows)

Note: **ODA (All Sectors)** represents total gross disbursements, comprising the shown categories plus residual non-sectoral flows (e.g., donor administrative costs and unallocated aid). **Sector Allocable** aid includes social (health, education), economic (infrastructure, energy), and production (agriculture) sectors. Spikes in 2020 and 2024 reflect debt relief milestones under the **HIPC Initiative**. The gap between the total (diamond) and the stack in 2015 represents a slight gap between disbursements for All Sectors and amounts disbursed to the constituent sectors.

A consistent theme from ODA disbursement sector allocations from the development community (official donors) has been the predominance of social infrastructure and services, averaging over $\frac{3}{4}$ of all sectoral allocations from 2012 to 2024. Aid disbursements reflect a deliberate sequencing strategy by the FGS and international partners to prioritize human capital and state-building as necessary enablers for economic growth. Multilateral institutions such as the World Bank and IMF, also, view these investments as critical for restoring the social contract and was integral in Somalia's reform agenda with a focus on strengthening public financial management and domestic revenue mobilization systems and codifying enforceable regulations. Governance-specific programs absorbed the largest share of this subsector, peaking at 75 percent of social infrastructure and service disbursements and reaching US\$252 million in 2020 before declining in both percentage and absolute terms. The notable "front-loading" of governance-related activities were necessary for Somalia to achieve HIPC Decision Point in 2023. Though social sector expenditure still held constant, allocation shares shifted more towards shock-responsive social protection and human capital programs in the country, necessitated further by the recurrence of climate disasters in the period 2012 and 2024 (OECD, 2024; IMF, 2023; World Bank, 2023).

Figure 4: Sector Allocable ODA Disbursements to Somalia by Sector (%)

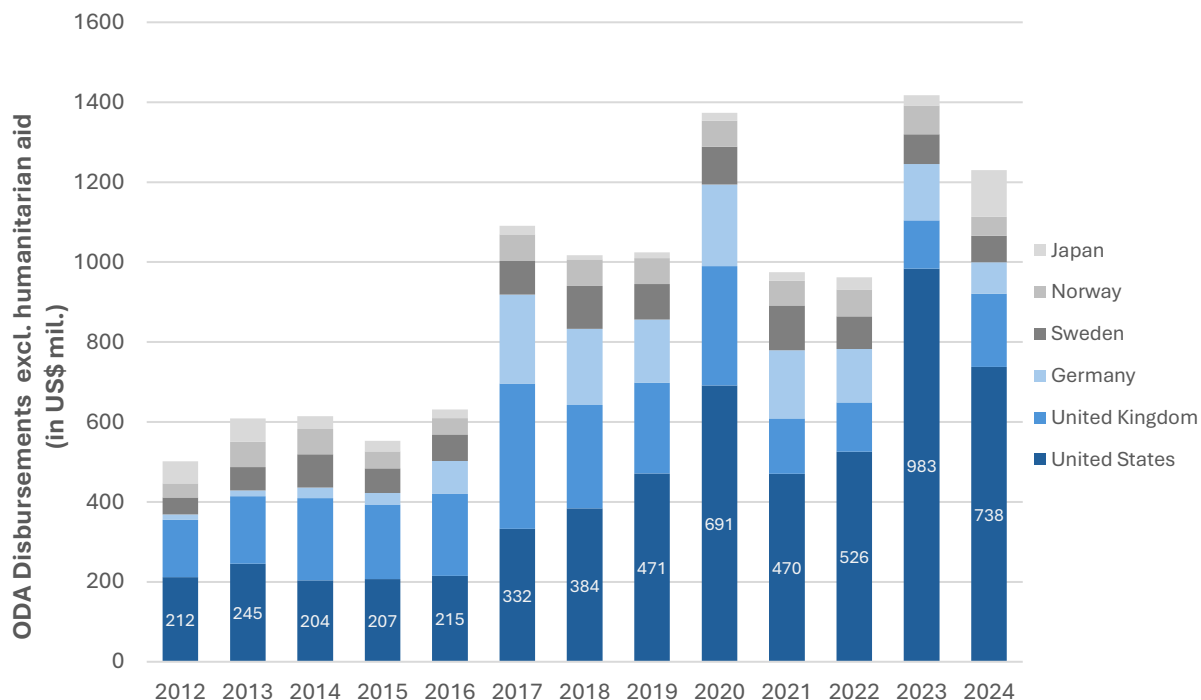


Source: OECD ODA Data (CRS flows)

Note: Per OECD CRS classification, "Sector allocable" ODA = Social infrastructure & services (codes 110–160: education, health, water, governance) + Economic infrastructure & services (210–250: transport, energy, communications, finance) + Production sectors (310–332: agriculture, industry, trade, tourism) + Multi-sector / Cross-cutting (410–430: environment, urban/rural development). It excludes humanitarian aid, budget support, debt relief, and donor admin costs.

Somalia's top six donor countries for Somalia have provided US\$ 1.2 billion annually in development aid for the country over the last five years, 83 percent of this amount coming from three countries (United States, United Kingdom and Germany). The U.S., U.K. and Germany each contributed an average of US\$ 681 million, US\$ 173 million and US\$ 145 million respectively, in development aid over the last 5 years. Contributions coming from the 6 countries in Figure 5 has historically always been significant since 2012, engirding the development aid continuity Somalia desperately needed. Development aid, as a part of broader ODA flows, from this group reached its highest level in 2023, where approx. US\$ 1.4 billion of the total US\$ 2.5 billion ODA mobilized for Somalia came from these 6 bilateral partners. Moreover, especially within the frame of the current development aid climate, the United States has historically been the largest single country donor of development aid, providing US\$ 681 million on average over the last 5 years.

Figure 5: ODA Disbursement (All Sector Allocations) - Top 6 Donor Countries



Source: OECD ODA Data

Note: All Sector Allocations represent total gross disbursements, comprising sector-specific development aid, humanitarian aid, debt relief, plus residual non-sectoral flows (e.g., donor administrative costs and unallocated aid).

Humanitarian assistance represents another major component of aid flows to Somalia, making up slightly higher to below half of all ODA flows the country has received. Recurrent droughts, floods, and displacement crises have sustained large humanitarian operations across the country. **The United States was the largest**

humanitarian donor as of 2024, providing an average of \$519 million annually over the past five years. The 2024 figures, however, signaled a sharp reversal for Somali stakeholders after US humanitarian aid fell to \$637 million — a decline of approximately 28 percent from the 2023 peak — bringing total humanitarian assistance down from just over \$1 billion to around \$740 million. While 2023 marked a high point in DAC and U.S. humanitarian support to Somalia, 2024 showed a sharp contraction despite unresolved humanitarian need. When viewed through the lens of the US share of the total donor envelope being significant, its withdrawal carries outsized consequences for overall funding levels.

Taken together, the data illustrates both the indispensability of the United States to Somalia's humanitarian financing architecture in the past and the systemic vulnerability of the ODA financing architecture remaining. While fiscal constraints and general retrenchment of donor support may be a constant, Somalia's development needs will only grow in the foreseeable future.

III. Demand Drivers for Development Finance in Somalia (2012 – Present Day)

Assessing the full implications of development finance and aid cuts vis-à-vis Somalia's development trajectory requires contextual understanding of Somalia's broader economic and socioeconomic profile of the country, beginnings of its development path, and institutional reform journey over the last decade. Much of Somalia's lauded gains was built on the foundations of a resilient private sector, painstaking governance reforms across multiple administrations and the Somali community from the Diaspora and country leveraging their societal bonds to effectuate change. Nevertheless, Somalia has been challenged by a multitude of crises that hamper the nation's development trajectory. Although the country has experienced gradual economic recovery over the past decade, growth has been constrained by rapid population expansion, climate shocks, and a narrow economic base. Poverty remains widespread and fiscal capacity limited, reinforcing Somalia's reliance on external financing and shaping its vulnerability to shifts in the global aid environment. Hence, Somalia's development landscape and its needs for development finance have been molded by the abovementioned. Below, the paper looks retrospectively at the economic, socioeconomic and institutional demand drivers for ODA then and today.

Economic and Socioeconomic Profile of Somalia

Somalia's GDP in real terms (constant 2022 US\$) has doubled over the course of a decade, though the size of the economy is approx. US\$ 11 billion. Figure 6 illustrates how Somalia's economy remains small in size, due in large part to its low-productivity economic base (SNBS, 2025), low-yield agricultural production (World

Bank, 2024), skills gaps, and the prohibitive costs of sourcing inputs to production (AfDB, 2024). Somalia ranks significantly low in economic performance in East Africa and across the continent. Regionally, Somalia is 6th out of the 7 EAC partner countries Somalia’s economy based on 2024 data². Across Africa, Somalia’s economy ranks 35th out of the 51 countries that comprise the continent (World Bank WDI, 2025).

Figure 6: Somalia Real GDP (2022 US\$ prices)



Real GDP growth averaged 2.4% per year in 2019–2024 while real GDP per capita fell by 0.4% per year, underscoring how population growth and shocks have offset output gains. Somalia’s economy remains tiny and poor despite a decade of robust economic output and resilience. Over the period since the transition of the Transitional Federal Government to the current Federal Government of Somalia, it is clear in the data how economic growth seems to have experienced extreme swings in growth. From double-digit economic growth between 2012-2015, to high economic growth in 2016-17, much of this reflected the transitions from proxy-based modelling to the structural break led by SNBS in 2017. Real GDP growth subsequent to this moderated to an annual average of 2.4% between 2019 and 2024. When contrasted with the official SNBS population growth rate (2.8%), this highlights that economic improvements haven’t kept pace with the country’s growing population.

² South Sudan 2024 data is not available, hence their exclusion

Table 3 - Annual GDP Growth (real terms)

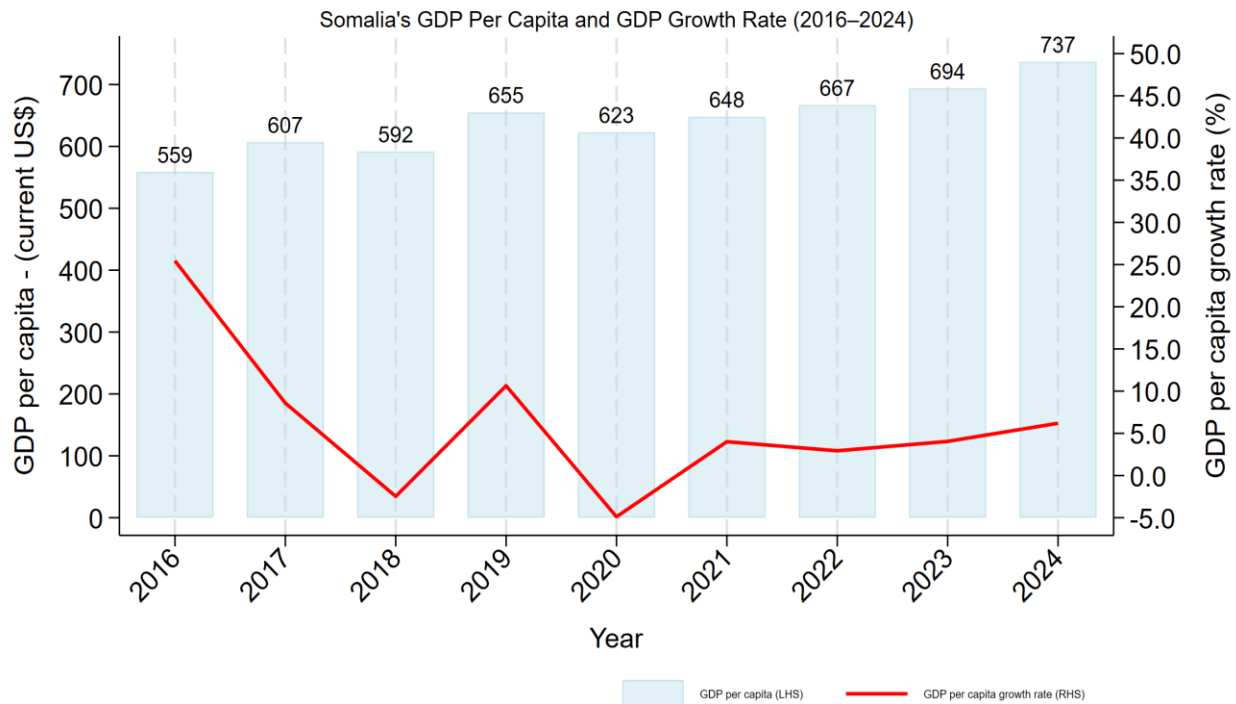
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GDP growth (%)	6.7	11.0	9.0	10.5	7.0	9.5	2.1	2.8	-2.8	3.4	2.7	4.2	4.1

Source: Somalia National Bureau of Statistics; World Bank

Note: GDP growth for 2012 is a modelled estimate; 2013 onwards, GDP growth is based on SIHBS household survey results and are sourced from SNBS.

As expected, income levels of the average Somali citizen has been mostly stagnant with slight increases in nominal terms; however, this has not translated into rising living standards for the average Somali when accounting for inflation. GDP per capita at its highest level has only reached ~US\$737 in 2024. Though GDP per capita growth averaged 3.6 percent after 2016, real incomes was still progressively less, year-on-year, when accounting for an average inflation rate of 5.4 percent. Hence, real incomes for the average Somalia has been shrinking by 1.8 percent per annum.

Figure 7: Somalia's GDP Per Capita Trends



Source: Somalia National Bureau of Statistics.

Somalia's negative GDP per capita growth from 2018 onward is best explained by a combination of recurrent real shocks and its demographics. First, Somalia experienced a sequence of adverse shocks that constrained output and household incomes: major flooding in 2019 (with documented impacts on livelihoods and production) followed by compounding climate stressors including locust infestations and other climate-related disruptions (World Bank, 2019). The COVID-19 shock in 2020 then interrupted the recovery through supply- and demand-side channels, including disrupted

imports and trade, weaker services activity, and reduced external demand—factors that the World Bank anticipated would lower growth and incomes (World Bank, 2020). Subsequent years continued to be shaped by recurrent climate shocks and elevated insecurity risks, which the IMF has repeatedly highlighted as key macroeconomic downside risks for Somalia (IMF, 2024). Against this backdrop, even when Somalia’s aggregate real GDP has grown in some years, the gains have been modest and uneven—for example, IMF technical assistance reporting notes real GDP growth slowing in 2022 relative to 2021—so the economy has not consistently generated enough additional output to raise incomes per person (IMF, 2023).

Somalia’s poverty profile evinces chronic deprivation, esp. in monetary terms, that has deteriorated during periods of crisis and is expected to worsen in 2025.

According to poverty analyses conducted by both the Somali National Bureau of Statistics and the World Bank. Poverty is very widespread and acute, affecting more than half (54.4 percent) of the population and particularly among rural/nomadic communities (78 percent). Though poverty is relatively lowest in urban centers (46.1 percent urban poverty incidence vs 54.4 percent national poverty incidence), the high proportion of the population residing in urban centers has meant that poverty is most concentrated in Somalia’s cities³. Moreover, poverty is higher in Central and Southern Somalia⁴. Similarly, the absolute number of poor is higher in more populated regions of Somalia, namely Banaadir, Waqooyi Galbeed and Lower Shabelle regions.

Furthermore, it is apparent that since 2017, the poverty picture hasn’t changed in any meaningful way nationally; though the rate of poverty has remained flat among urban populations, there has been noticeable uptick in poverty rates among rural (6.6 and 6.7 percentage points) and nomadic populations in Somalia in terms of headcount and incidence of extreme poverty, respectively. For the rural population, increase rates of poverty is directly linked to drops in average consumption (Somalia – Poverty and Equity Assessment, World Bank 2024)

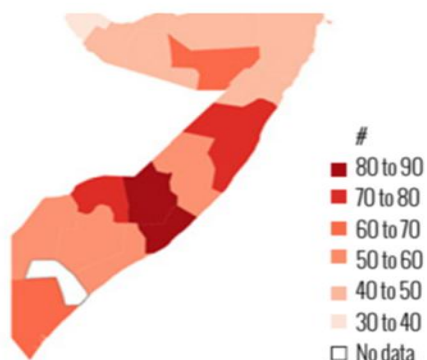
³ Somalia Poverty Report (SNBS 2023)

⁴ Somalia- Poverty and Equity Assessment (World Bank 2024)

Poverty Trends – 2017 to 2022

Poverty Rate Dispersion by Region

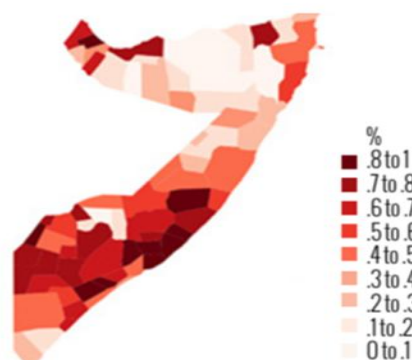
on



Source: Somalia Poverty & Equity Assessment (World Bank 2024)

Extreme Poverty Trends – 2017 to 2022

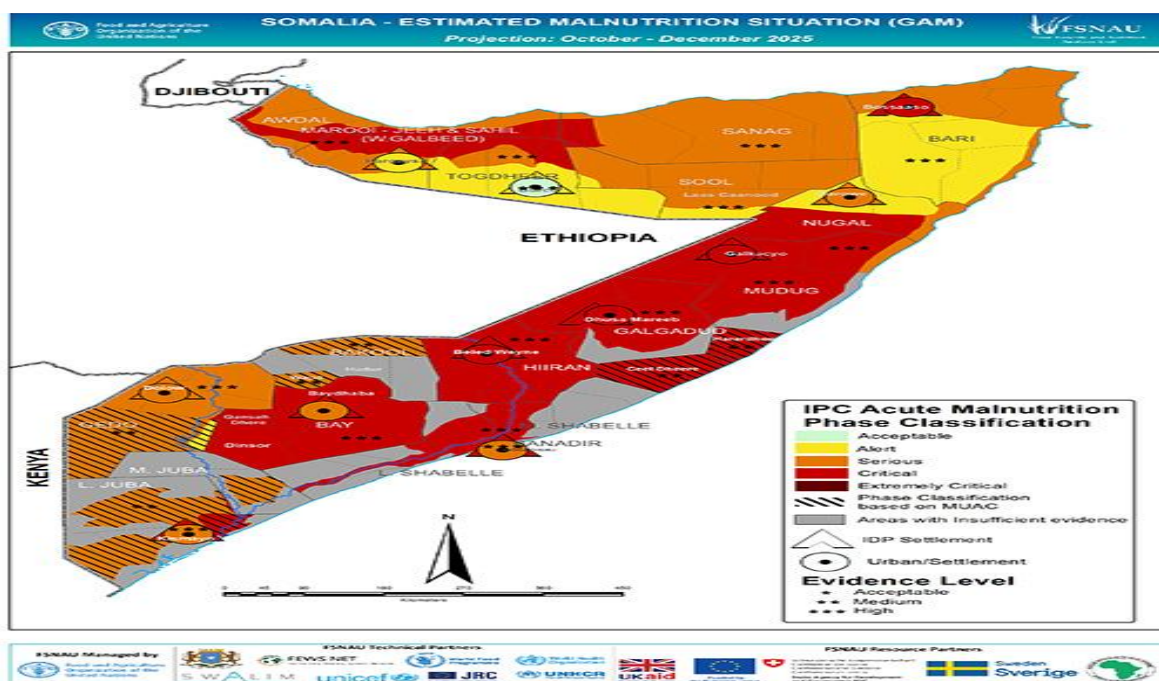
Share of Population Exposed to Any Climate Hazard by District



Source: Somalia Poverty & Equity Assessment (World Bank 2024)

Somalia's socioeconomic landscape is interminably impacted by hydro-climatic extremes and large-scale displacement. During the 2023–24 El Niño, floods affected ~2.48 million people and displaced more than 1.2 million; estimated damages and losses were US\$193.4 million with recovery needs at US\$250.2 million⁵. Earlier events were even costlier, estimated at US\$1.02 billion in damages and US\$2.23 billion in losses because of the 2017 drought⁶. The 2019 floods Impact & Needs Assessment

Figure 8: Somalia's Food Insecurity Profile (Oct-Dec 2025)



⁵ Somalia 2023 Devr Floods Rapid Post-Disaster Needs Assessment Report

⁶ Somalia: Drought Impact and Needs Assessment

estimated more than US\$260 million in damages and losses (World Bank/FGS)⁷. Finally, regions with the largest proportion of its population exposed to climatic shocks tend to also have higher poverty rates.

Climatic events also determine the nutritional outcomes of the Somali population.

From 2018 to 2025, Somalia's food security fluctuated from a period of relative recovery in 2018–2019 (1.5–2.5 million in IPC 3+) to a historic peak in late 2022, when a record five-season drought left 8.3 million people—nearly half the population—facing acute hunger (FSNAU, 2022). While massive humanitarian aid narrowly averted a formal famine declaration, subsequent "once-in-a-century" El Niño floods in late 2023 and erratic rainfall in 2024–2025 prevented any meaningful recovery (IPC, 2024). By late 2025, approximately 4.4 million people (23% of the population) are projected to remain in IPC Phase 3 or worse, driven by the cumulative impact of climate volatility, high food prices, and persistent conflict (FSNAU, 2025), making Somalia's the most food-insecure country in the world (Global Hunger Index, 2025).

Consequently, Somalia also lags behind many countries in human capital development, across health and education metric, and ranks second to lowest among east African countries, lowest-performing 3 in Africa and in the bottom 5 globally. Somalia suffers from low life expectancy, high under-5 mortality rates, health expectancy and education outcomes. This, in totality, yields an overall low human capital index measure of 0.36, which is lower than the EAC and SSA average.

Table 4: Human Capital Indicators for Somalia & Comparators

Indicator	Somalia	Kenya	Ethiopia	EAC Avg.	SSA Avg.	Data source
Human Capital Index	0.36	0.55	0.38	0.39	0.4	World Bank
Life exp. at birth	59	67	67	64	62.7	SNBS
Under-5 mortality (per 1k)	121.5	41	47	58	73	SNBS
Healthy Life Exp (HALE)	47.4	58.5	56.4	53.1	53.1	WHO
Exp years of schooling	1.72	10.7	8.2	7.5	7.7	UNESCO / UNICEF
Adult Literacy (Male/Female)	50%	85%/ 78%	59% / 44%	79% / 71%	73% / 65%	SNBS
Primary Enrollment (Gross)	39%	103%	101%	94%	102%	IMF / WB

This state of affairs highlights a perverse trilemma: (1) the average Somalia has suffered from negative real income growth for many years while poverty is

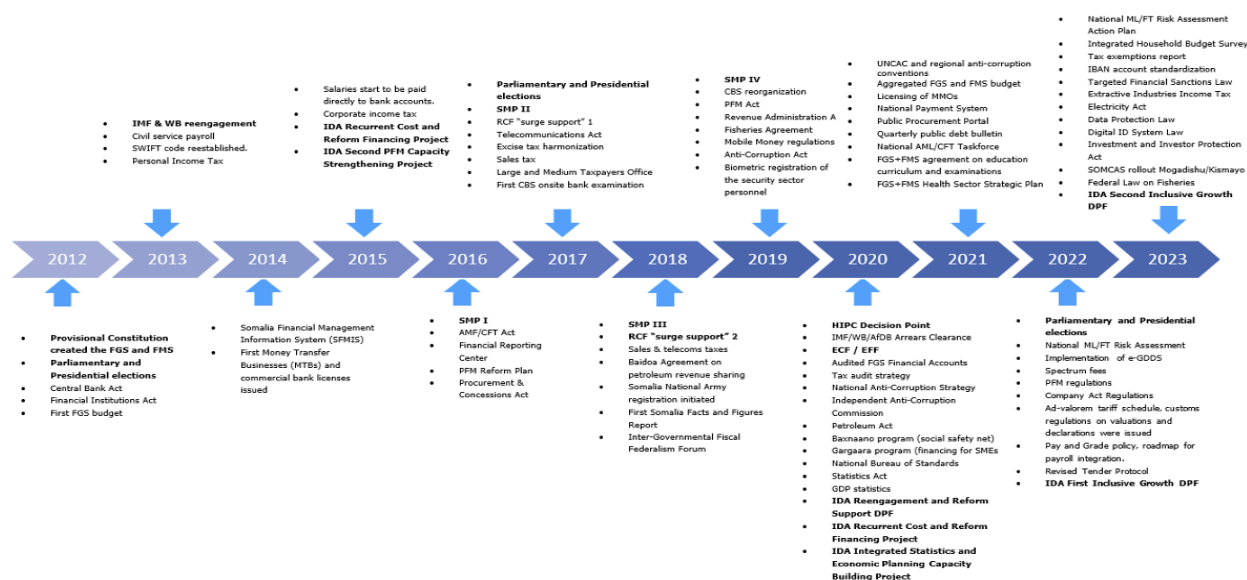
⁷ Parvez, A., 2020. *Somalia - 2019 Floods Impact and Needs Assessment*, World Bank Group. United States of America. Retrieved from <https://coillink.org/20.500.12592/28dsgf> on 30 Sep 2025. DOI: 20.500.12592/28dsgf.

endemic, (2) climatic shocks have exacerbated all the stressors the country faces, and (3) Somalia's human capital growth being stagnant further ensnares the country in a low-level equilibrium trap. Since 2016, the economy hasn't yet made meaningful strides in terms of income and core socioeconomic metrics. In summation, the pace of current trends point to deeper, long-term risks to Somalia's development agenda in an environment of receding multilateral support.

Institutional Reform and Fiscal Capacity

At the outset of Somalia's Highly Indebted Poor Country (HIPC) Initiative process in 2012 (culminating in the Decision Point reached in March 2020), the Federal Government of Somalia (FGS) was operating as a fiscally constrained state with very low domestic revenues, heavy reliance on external grants, and weak delivery capacity shaped by a fragmented federal settlement and persistent insecurity—constraints that made debt relief contingent on demonstrating credible reforms in macroeconomic management and public financial governance (IMF, 2020; World Bank, 2020). The immediate pre-HIPC period was therefore defined less by “policy choice” than by “policy necessity”: normalizing relations with IFIs required arrears clearance and a reform track record, which Somalia achieved through coordinated arrears clearance operations (notably to IDA in early March 2020 and to the IMF later that month), paired with an IMF-supported policy framework that could credibly anchor fiscal discipline and institutional rebuilding (World Bank, 2020; World Bank, 2020; IMF, 2020).

Figure 9: Somalia's HIPC Process - Timeline & Implemented Reforms



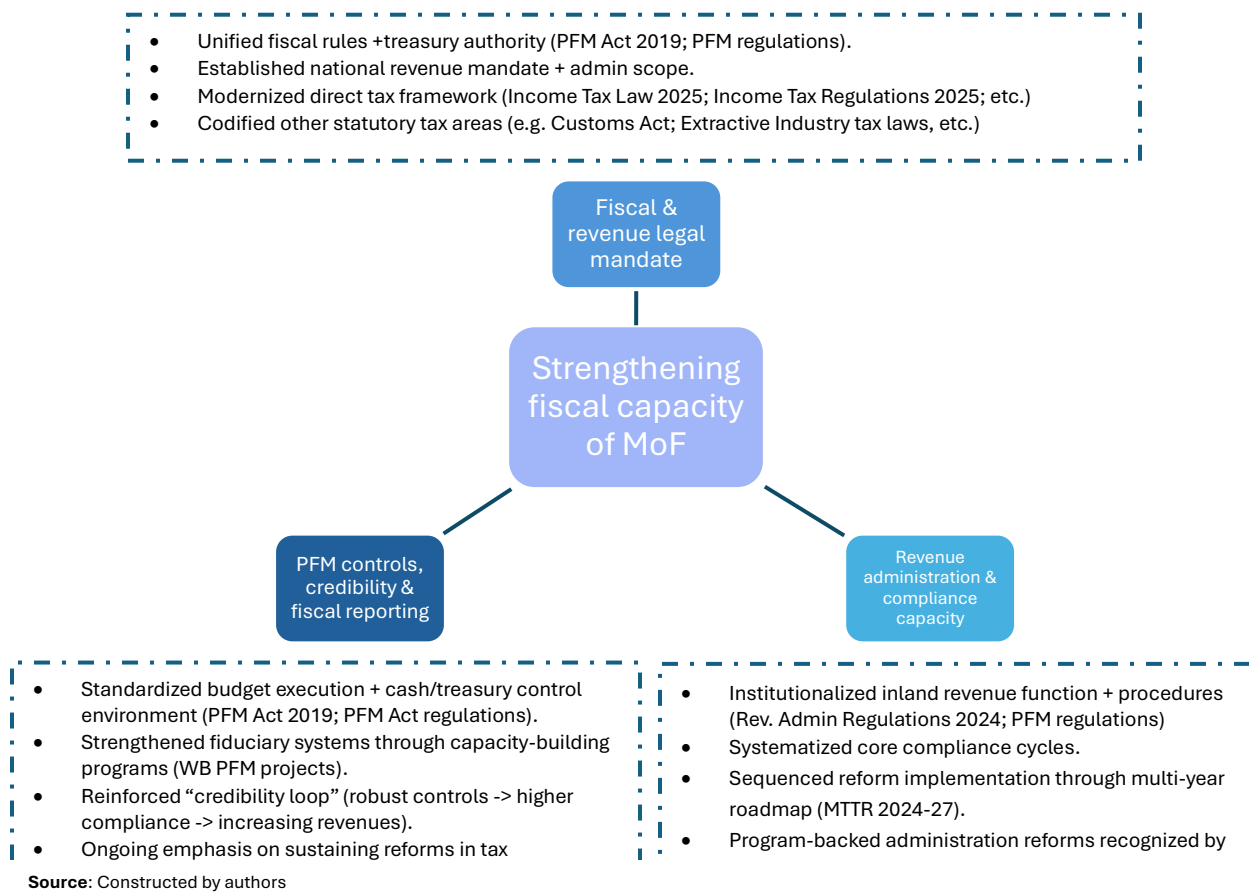
Source: IMF Somalia Country Report (Dec 2023)

The period of reforms in Somalia was prolonged, beginning with the HIPC process, and particularly picking up pace from 2016 onwards; this period can be

described as one of absolute “re-capacitation” of key governmental entities within the Federal Government of Somalia. Highlights of re-capacitation in the country saw the re-emergence of defanged institutions, (e.g. Central Bank of Somalia), the systemization of government functions (e.g. formalization of domestic resource collection, public financial management, procurement practices, pay and grade policies for public servants, etc.) and the beginning of Somalia’s international engagement. Though the impetus of these reforms were set by the HIPC initiative, Somalia was keen understanding how foundational the reform program would be in building a more capacitated state . This is especially the case for public service delivery, which is primarily provided by the private sector in major urban centers and through donor-supported programs implemented outside of the Banadir region.

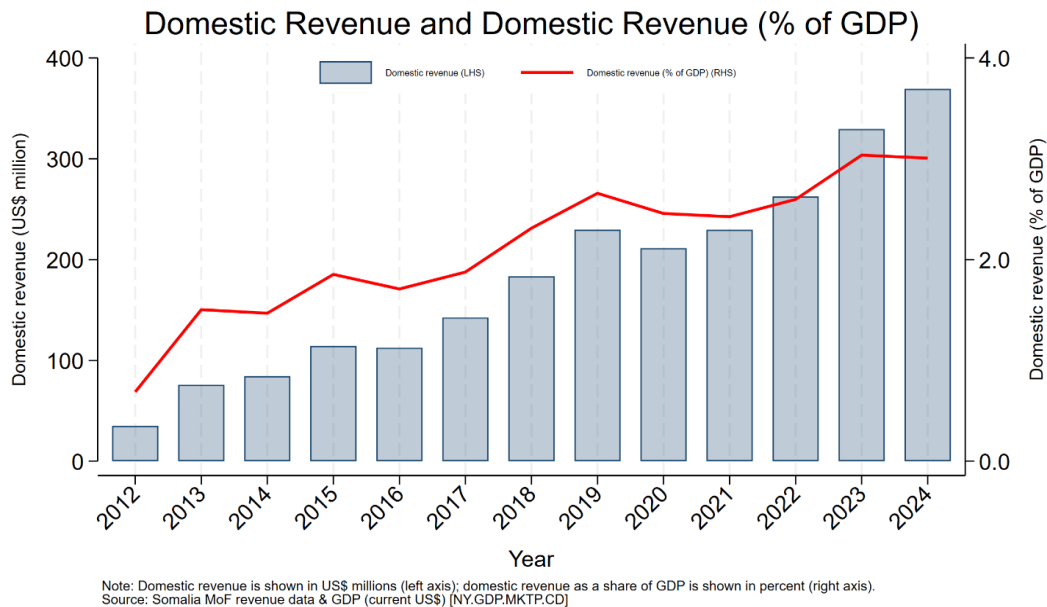
A key signifier of the developing state in Somalia, the marked ramp-up in domestic revenue collection has been a result of the reconstruction of the state’s fiscal institutions and the strengthening of its capacity to implement its duties, primarily domestic revenue collection. Somalia has been able to fortify the functions of its institutions, namely the Ministry of Finance, off the foundations of multiple reform actions while undergoing the HIPC process.

Figure 10: Key Areas of Fiscal Capacity Building (2012-Present Day)



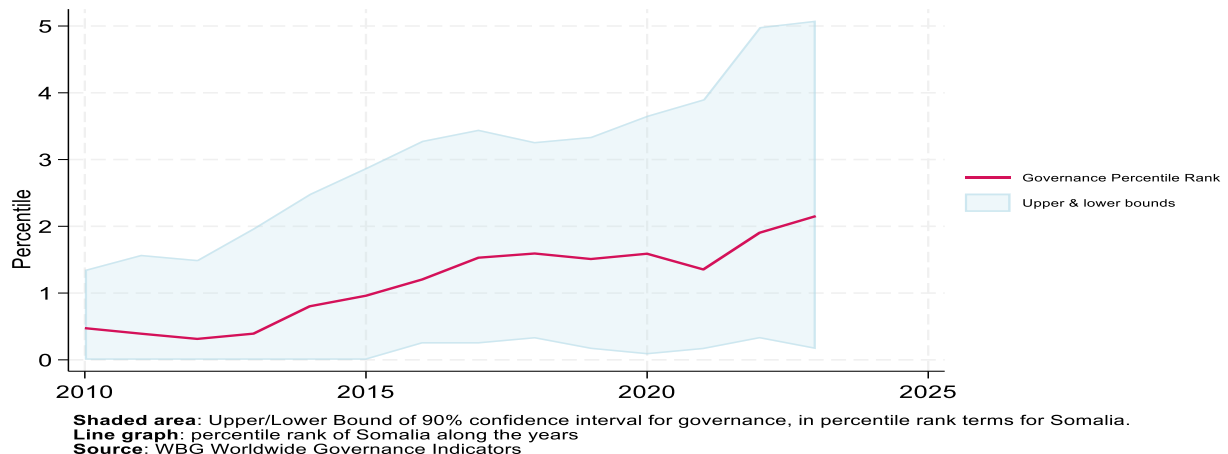
However, much progress is needed as Somalia has not yet achieved the level of self-sufficiency required to fund the state and services provided. Though Somalia has augmented domestic revenue collection by more than tenfold, this is from a low baseline (US\$ 35m in 2012 to US\$ 369m in 2024). Annual Year-on-Year growth of domestic revenue was 24 percent since 2012, though this has shrunk to approx. 10 percent over the last 5 years. On the whole, this is punctuated further by how minimal domestic revenue is compared to GDP at 3 percent of GDP.

Figure 11: Somalia Domestic Revenue Collection Trends (2012-2024)



Somalia, despite the reforms undertaken since 2012, still lags globally on governance indicators. Somalia's governance percentile rank by the World Bank

Figure 12: Somalia Governance Rating - WBG/WGI (2024)



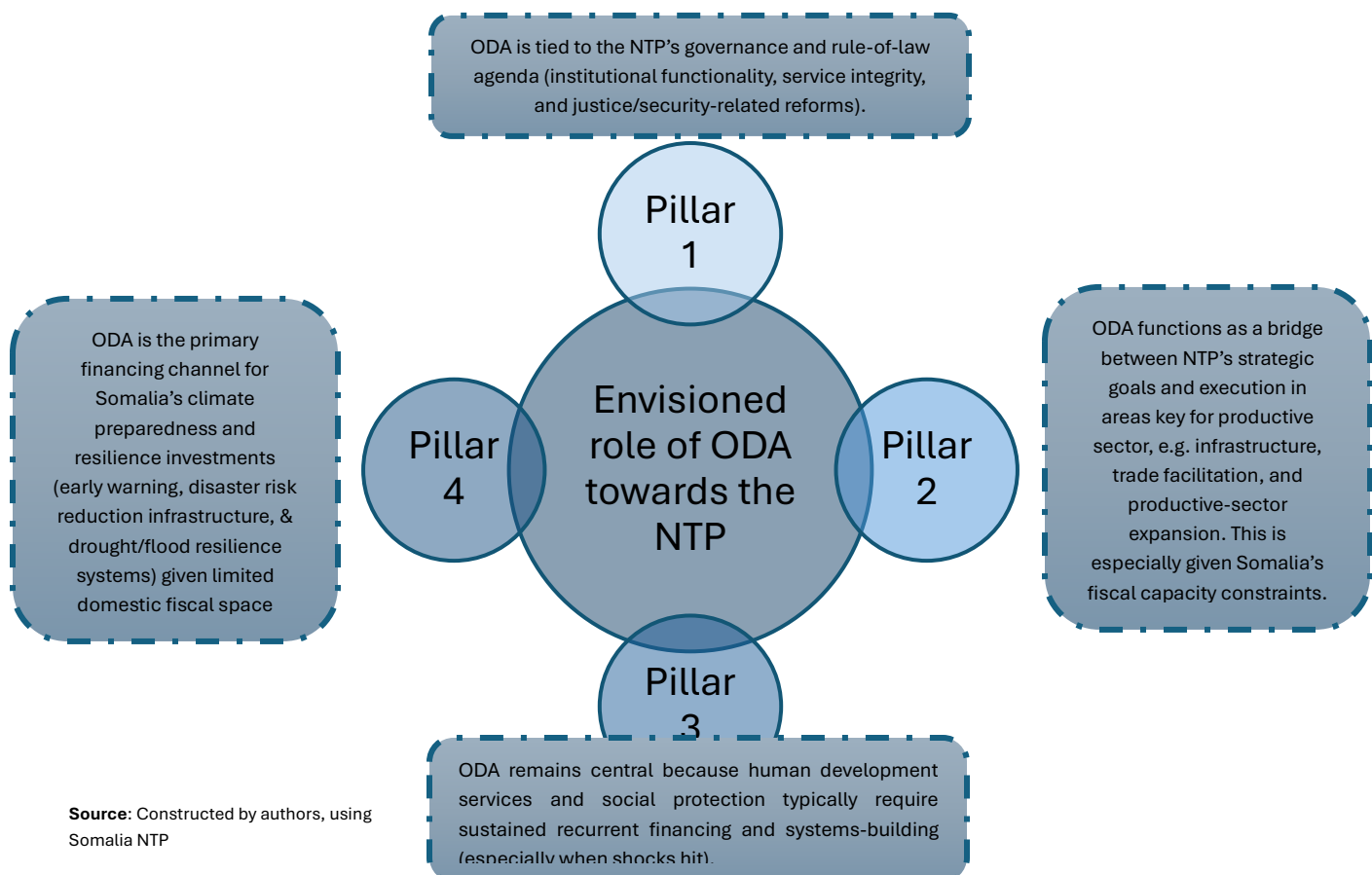
Group and WGI ranks 3rd percentile among all countries covered in key governance dimension (e.g. Government Effectiveness, Rule of Law, Control of Corruption).

ODA Complementarity with Somalia's National Development Vision

An important consideration when dissecting the implications of aid cuts is the current development vision of Somalia, articulated in detail in Somalia's National Transformation Plan (NTP) 2025-2029.

Somalia's NTP is the government's current 5-year national development roadmap and strategy; building directly from the 9th National Development Plan 2020-2024, the NTP continues the forward vision of shifting the country from dependence on emergency stabilization toward institution-building and service delivery. Formally launched in March 2025, the NTP consolidates lessons from NDP-9 into a more actionable agenda contained within 4 pillars, in order: Transformational Governance, Sustainable Economic Transformation, Social & Human Capital Transformation, and Environmental & Climate Resilience. **Though the Somalia NTP explicitly aims to put the government more in the driver's seat of public service delivery, these services are undeniably underwritten, if not provided, through ODA flows.**

Figure 13: Interrelationship between ODA and Somalia's NTP



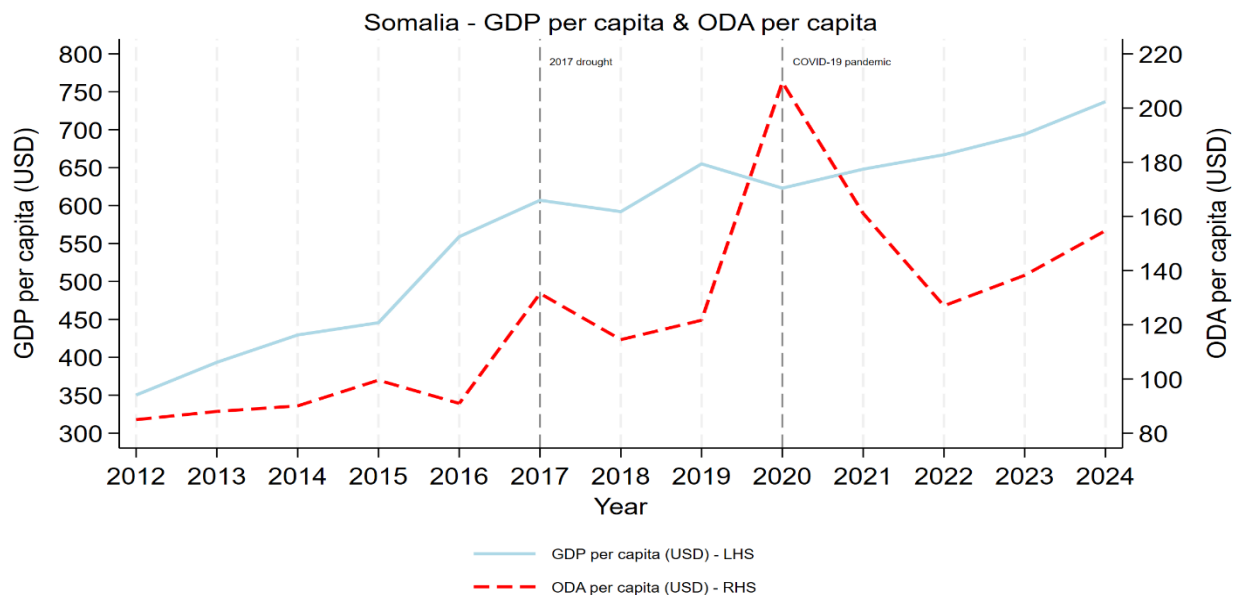
IV. Quantitative Framework for Measuring the Impact of ODA Cuts

The preceding economic and socioeconomic snapshot underscored a central tension: Somalia has achieved tangible outcome from institutional rebuilding and nominal economic growth gains since 2012 albeit negligible in real terms; yet per capita incomes, poverty, and human capital indicators remain fragile and shock-sensitive from an already-low base point. In such a context, external financing volatility is not marginal, but acutely consequential to a country's development trajectory. Taking note of the lagged effect ODA flows would conceivably have on socioeconomic metrics, the team explores any indication of a relationship or correlation between economic trends and development. The next section interrogates this intuition by quantifying how ODA variations may transmit through Somalia's economy via consumption, imports, and fiscal performance.

Macroeconomic Transmission: Demand-Side Elasticities to ODA

The suggestive link tying ODA and Somalia's economic activity is visible in longitudinal trend data – development aid disbursements seemingly is reflected in the GDP per capita levels. At a cursory level, Somalia's economic dynamics appear to move with changes in net ODA flows. Moreover they, also appear to trend in the same direction from 2012 to 2024. Though income of the average Somali would mask multiple variables (remittances, compensation for labor, etc.), the graph below does suggest variation in GDP per capita moves with ODA per capita trends except for countercyclical spikes due to crises.

Figure 14: Somalia GDP and ODA per capita Trends



Source: World Bank Group, UNFP, & SNBS data

Dissecting macroeconomic dynamics and ODA trends show a plausible positive

relationship that holds strongly in regression analysis. GDP trends appear to track with ODA flows after controlling for remittance flows, export growth and all variation attributable to the COVID-19 pandemic. For every 1 percentage point change in net ODA flows (inclusive of humanitarian and development aid), we observe approximately 0.18 percentage point change in GDP growth⁸. Similarly, we observe comparable relative importance of remittance flows as a correlate with economic growth; for every 1 percentage point change in remittances into Somalia in the preceding year, economic growth in the current year is observed to increase by 0.13 percentage points. Nevertheless, beyond illustrating the quantitative correlation between economic output and ODA, this does not show the channels through which ODA may impact GDP trends.

When decomposing GDP into its primary components and leveraging plausible linkages with ODA (i.e. consumption and gross capital formation), there is a parsimonious yet consistently positive link between ODA and consumption growth. For every 1 percentage point growth in net ODA flows, we observe a 0.24 percentage point increase in total consumption growth. On a similar token, remittances also appear to move in tandem; for every 1 percentage point increase in remittances flows in the previous year, we see 0.30 percentage point jump in total consumption growth in subsequent years. The regression analysis accounts for growth in domestic revenue (a proxy for domestically mobilized public expenditure given the almost-zero primary balance) and the COVID-19 shock. No clear relationship is discernible from capital formation trends potentially attributable to ODA flows⁹.

When examining the growth elasticity of demand-side GDP components with ODA flows, the positive relationship still holds strong and is consistent for both private and government consumption. In the below dynamic regression, a 1 percentage point increase in net ODA flows is associated with a 0.12 percentage point change in real household consumption. Similarly, a 1 percentage point increase in on-budget grants to government appears to yield a 0.05 percentage point increase in government consumption¹⁰.

The causal mechanism through which ODA impacts consumption levels is well-established in economic theory and from publications by multilateral partners. The ODA–household consumption linkage is consistent with a transfer-and-income transmission mechanism in Somalia, where aid disbursements directly augment household resources (cash/in-kind support) and indirectly raise disposable income via aid-financed local spending (World Bank). The on-budget grant–government consumption relationship is consistent with a fiscal-liquidity channel: budget support enters the treasury financing pool, sustains recurrent spending execution, and – given

⁸ Column 1 of Regression 1 in Appendices

⁹ Ibid.

¹⁰ Column 1 of Regression 2 in Appendices

Somalia's high dependence on grants – shifts quickly into operational consumption that underpins basic public service delivery.

The team, leveraging the consumption channel, also observes a strong effect of consumption and preceding remittance receipts on import levels. These results are consistent given the observed import-heavy demand-side dynamics of Somalia's economy. A 1 percentage-point increase in final consumption expenditure growth is associated with a 0.482 percentage-point increase in import growth. Similarly, a 1 percentage point increase in lagged remittance growth is associated with a 0.246 percentage-point increase in import growth¹¹.

These insights align perfectly with the economic structure of Somalia – consumption-dominant and structural weakness in the country's external sector. Somalia's narrow domestic production base compounded by its limited export capacity, has led to overreliance on imports. Somalia's average external balance deficit has been -55.5 % of GDP on average for the last 5 years, driven by domestic consumption being the driving force of economic dynamism in the country (World Bank). The IMF explicitly notes Somalia's unusually high import reliance—imports of goods and services far exceed exports—and that remittances and aid are used to fund imports because of limited domestic production. As the SNBS notes, this structural weakness is observed in the nature of imports: in the last quarter of 2024, total imports reached US\$2.595bn, dominated by Food (US\$642.0m; 24.7%), Medical products (US\$406.4m; 15.7%), Construction materials (US\$342.6m; 13.2%), and Clothes & footwear (US\$335.7m; 12.9%)—with the next tier comprising Cars & spare parts (US\$186.3m; 7.2%), Oil & gas (US\$178.4m; 6.9%), and “Others” (US\$170.2m; 6.6%); personal care alone accounts for US\$122.0m (4.7%), and SNBS also reports khat at US\$120.7m (~4.7%) within the period (SNBS trade bulletin).

Fiscal Performance: Revenue and Expenditure Linkages to ODA

Somalia domestic revenue collection trends show a strong positive relationship with on-budget grant support, controlling for extraneous conditions and trade flows. The OLS regression indicates that Somalia's near-term revenue performance is tightly linked to the availability of on-budget external financing controlling for extraneous shocks and import levels, with large downside sensitivity to systemic shocks. A 1 percentage-point increase in on-budget grant support is associated with a 0.267 percentage-point increase in domestic revenue growth.

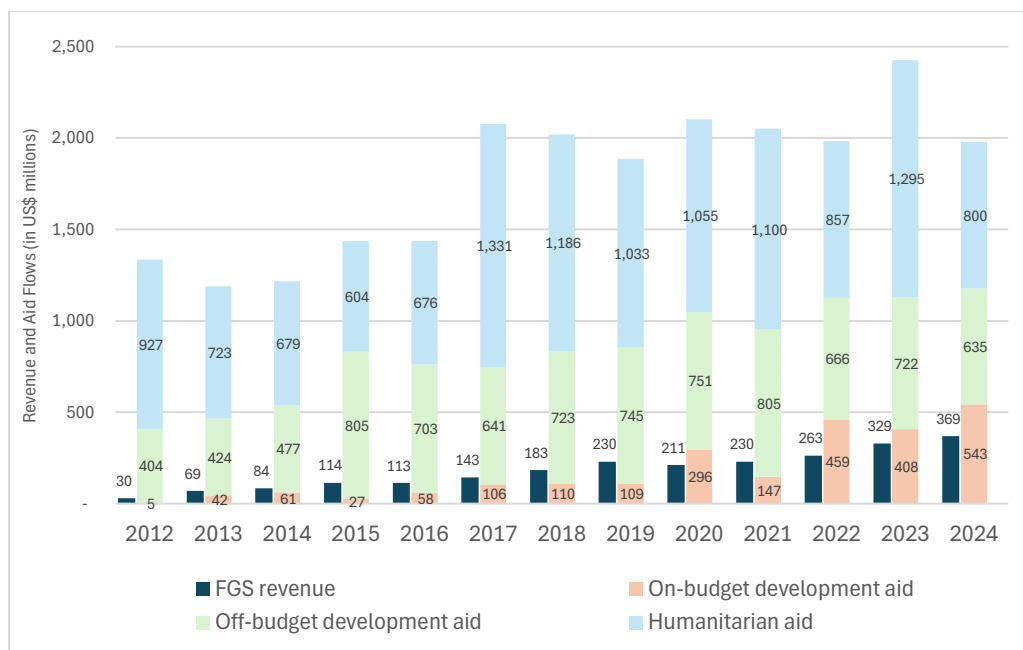
The size and sign of both key variables (Δ on-budget support and imports) mesh with macro-fiscal and administrative realities vis-à-vis revenue collection. The positive association between on-budget grant support and domestic revenue growth is

¹¹ Column 1 of Regression 2 in Appendices

consistent with gains yielded from liquidity buffers during the course of institutional reform: when budget support comes in through the treasury, it helps fund the reforms in revenue administration, further building the state's capacity to tax¹². As for the counterintuitive relationship between imports and domestic revenue, though customs collection forms close to half of all domestic revenue, this is likely due to the inefficient and haphazard mode of customs collection. The IMF has documented Somalia's customs system transitioning from a proxy-based specific-tariff modality to an ad-valorem, declaration-based regime under SOMCAS, albeit with uneven rollout across ports¹³.

When accounting off-budget development assistance, the gulf between ODA flows and fiscal inlays is jarring; the ratio of domestic revenue to aggregate development assistance (on- and off-budget aid) is approximately 1 to 4. As evident in Figure 17, this is primarily driven by off-budget aid (development assistance and humanitarian aid). This not only poses potential challenges in terms of state building but renders the Somalia developmental agenda vulnerable to the vagaries of ODA flows.

Figure 15: Somalia Fiscal Inlays & Aid Assistance



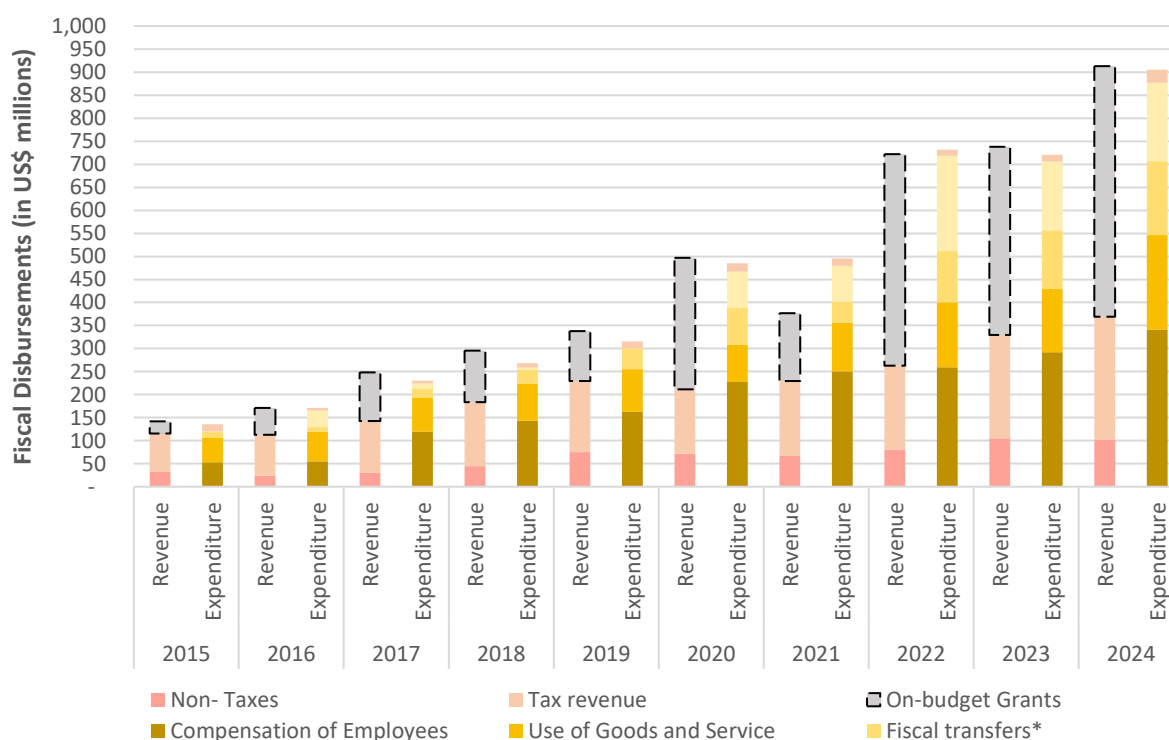
Source: Authors of Somalia Financial Governance Report (FGR) 2024 calculation of MoF, MoPIED, OECD

¹² Grants sustain the day-to-day government operations and reduces cash rationing. This is aligned with the authorities' own framing in the IMF ECF program documentation that "revenue overperformance and budget support grants allowed us to maintain a cash balance to partially address liquidity needs" (IMF).

¹³ Prior to reforms in customs duty collection, duties were levied based on bundle size, not value of imported goods (IMF, 2025). With the introduction of some ad valorem tariffs, regulated valuation and declarations, and harmonized tariffs with HS codes were introduced via SOMCAS, which is now fully operational in Mogadishu and Kismayo (IMF, 2025). Reforms in Garowe and Bosaso were halted due to political issues, highlighting ongoing geographic fragmentation in customs modernization (IMF, 2023).

Beyond ODA's aggregate scale relative to Somalia's economy, on-budget grant support is fundamentally integral to fiscal policy and day-to-day operations of the Federal Government of Somalia (FGS). This is because it directly finances the cash budget envelope used to execute recurrent operations and priority programs. Available official fiscal reporting indicates that the grant share of the budget has increased materially in recent years, reaching levels consistent with roughly two-thirds of the budget envelope in the most recent budgets, e.g. domestic revenue of US\$369 million – 34% of the FY2024 budget of US\$1.078 billion – implies grants are about 66% (MOF, 2024). This marks a shift from earlier fiscal reporting in which domestic revenues constituted the majority of the recorded financing envelope, e.g., domestic revenue at 65.4% and grants at 34.6% of the cumulative total (FGS Budget Office, 2016/17). Furthermore, Somali domestic revenue is only sufficient at this stage to cover base payroll expenses of civil servants; fiscal transfers to FGS and Federal Member States, capital expenditures linked with programmatic spending and variable expenses are covered by on-budget grants. Though domestic revenue has also strengthened over time—reflecting governance and capacity reforms emphasized under the HIPC track—recent budget structures still show that **on-budget external support remains a dominant determinant of fiscal space**, financing budget gaps, institutional

Figure 16: Somalia's Domestic Revenue & Expenditures



Source: Somalia MoF data

strengthening, crisis response, and programmatic spending (Mubarak, 1996; Raballand et al., 2022; FGS Revenue Directorate, 2024).

Somalia’s Federal Member States display markedly different levels of fiscal self-reliance, but most remain highly grant-dependent – with Puntland the clear exception. Relative to the FGS—whose 2024 fiscal profile is structurally grant-dependent (US\$543m in grants versus US\$369m in domestic revenue, with grants financing 60% of expenditure and equaling 147% of domestic revenue)—the Federal Member States show wide variation in exposure to external financing shocks. Puntland stands out as the most self-financing administration, with grants modest relative to both its own-source base (grants/revenue = 0.28) and spending envelope (grants/expenditure = 0.23), indicating that most expenditure is financed through domestic revenue. Jubaland sits in an intermediate position (0.46 and 0.31), suggesting grants play a supporting but not dominant role. By contrast, South-West, Galmudug, and Hirshabelle remain highly grant-dependent—at levels comparable to, or exceeding, the FGS. South-West is the most exposed: grants are nearly three times domestic revenue (2.90) and finance 78% of expenditure, implying that spending is highly sensitive to interruptions in on-budget support. Galmudug (1.60; 0.62) and Hirshabelle (1.98; 0.67) likewise rely on grants for the majority of spending, with financing gaps large relative to own-source revenue (deficits equal to 161% and 197% of domestic revenue, respectively), underscoring limited fiscal buffers and a narrow foundation for self-financed service delivery.

Table 5: Fiscal Profile of FGS & FMS Governments (2024)

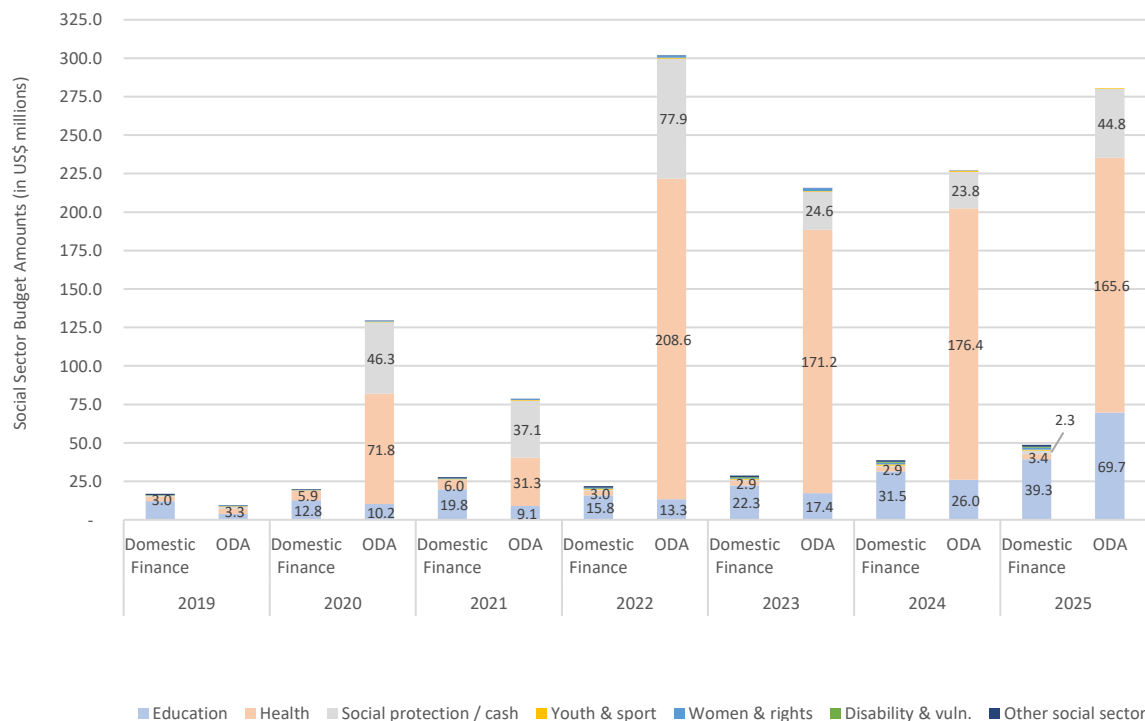
Fiscal Profile Items	2024					
	FGS	Puntland	Jubbaland	South-West	Galmudug	Hirshabelle
Grant (in US\$ mil.)	543	27	14	17	17	13
Domestic Revenue (in US\$ mil.)	369	97	30	6	11	7
Expenditure (in US\$ mil.)	905	119	45	22	27	19
Domestic revenue-expenditure ratio	0.41	0.82	0.67	0.27	0.38	0.34
Grants-revenue ratio	1.47	0.28	0.46	2.90	1.60	1.98
Grants-expenditure ratio	0.60	0.23	0.31	0.78	0.62	0.67
Budget balance (in US\$ mil.)	-536	-22	-15	-16	-17	-13
Budget deficit (% of domestic revenue)	1.45	0.22	0.49	2.73	1.61	1.97

Source: Authors’ calculations of data from the Ministry of Finance.

Socioeconomic Service Delivery: Dependency on ODA Flows

While domestic finance funds operational expenses borne by development projects and government institutions, ODA remains the primary source of social sector expenditure. Somalia's social outcomes have and continued to be tightly coupled with external development finance and humanitarian aid. This is explained by the recurrence of humanitarian crises, specifically in food security and health, compounded by already-low socioeconomic outcomes of the population. The fiscal strain of responding to recurrent shocks and economic development is best exhibited in the graph below. Similar to previous graphs, the beginning of the HIPC cycle ushered exuberant expenditure from Somalia's multilateral development partners. At the height of this, social sector expenditure went above US\$ 300 million; the differential between social sector expenditures between international partners and the government has been around 8x over the last 5 years.

Figure 17: Social Sector Expenditure (on-budget) in Somalia



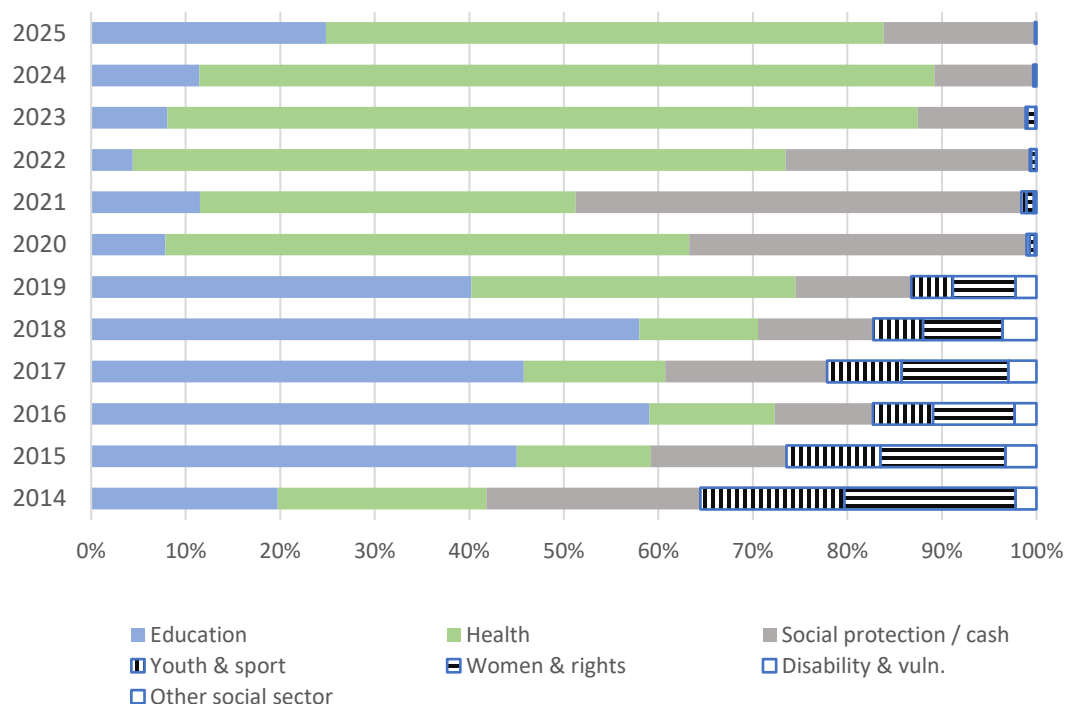
Source: Authors calculation of MoF data

Expenditure by both the Somali government and international development partners predominantly fall within 3 sector areas: education, health & nutrition, and social protection/cash transfer programs. Though there are conspicuous differences in level allocations, these sector areas almost comprise all of ODA flows towards development projects in Somalia. While the high ratio of contributions from

MDBs and international donors relative to FGS reflect the financial wherewithal of international institutions, ODA support was earmarked for systems-building, capital investments that were conceived as multi-year engagements, whereas funding from domestic sources was mainly mobilized for remaining recurrent costs.

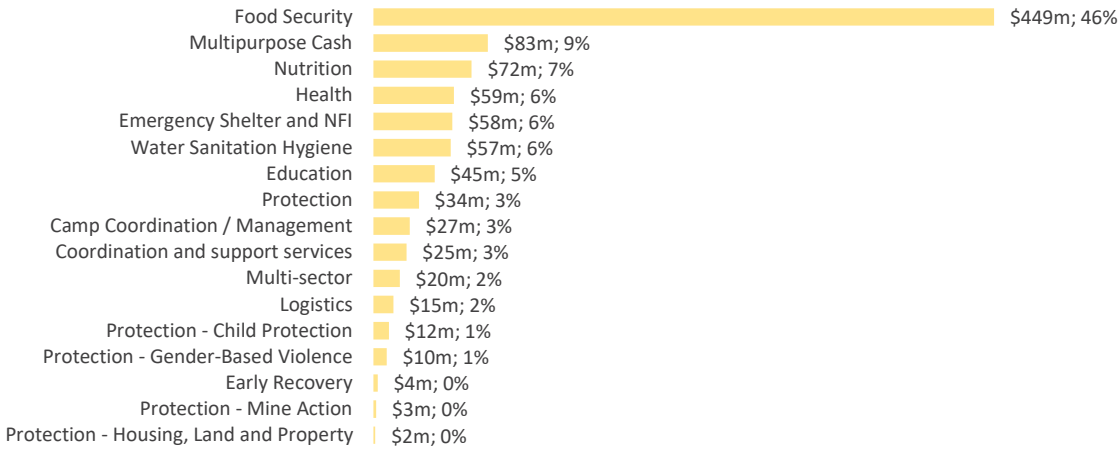
Examples of multi-year flagship engagements in health and nutrition include the World Bank Damal Caafimaad, a project aimed at expanding essential health and nutritional services, while strengthening government stewardship and data collection, with an allotted budget of US\$ 100 million. Similarly, subsumed in the ODA budget was funding for the nationwide World Bank Baxnaano project; the US\$ 346.7 million project aims to institute an active social welfare program that leverages a unified social registry that targets households facing food insecurity, poverty, displacement as well as other socioeconomic makers. Additionally, there are education programs designed to target access and quality of education in Somalia, institutional capacity-building and monitoring of learning outcomes in the form of the US\$ 40 million World Bank Education for Human Capital Development, in addition to GPE-funded US\$ 60.76 million “transformation grants”. This translates into more than 90 % of on-budget funding from ODA earmarked for these 3 sectors.

Figure 18: Breakdown of Social Sector ODA Allocations (on-budget support)



Source: Somalia MoF data

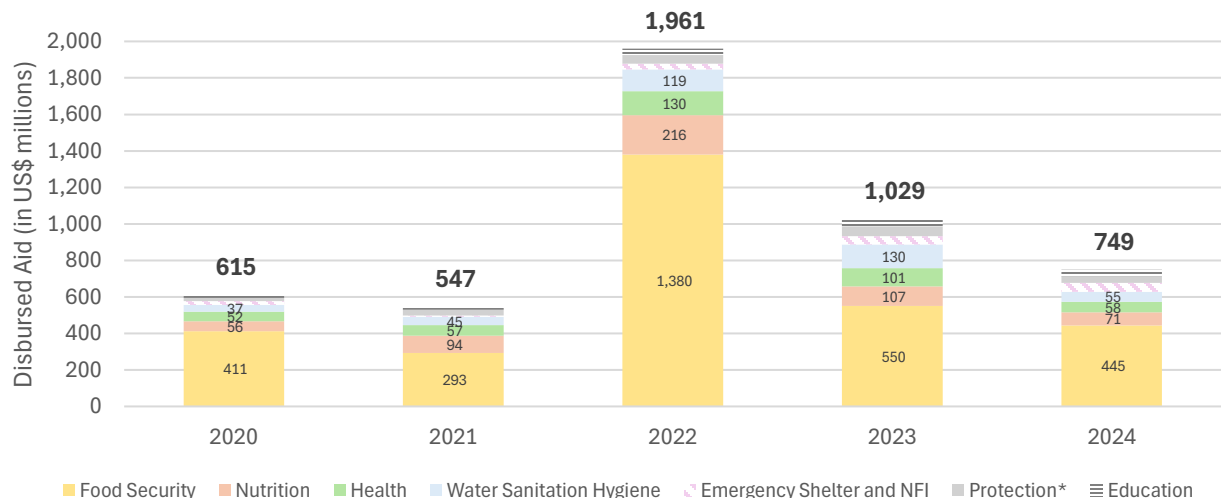
Figure 19: Distribution of Humanitarian Assistance by Area of Support in 2024



Source: ODI

The 2024 trend of humanitarian aid, in terms of proportionality, has shown a continuation of previous years. The most significant share of aid has always been allotted for food security, nutrition, health and WASH; over the last 5 years, the aforementioned sectors received 90 % of all humanitarian assistance mobilized for Somalia, with food security assistance ranging from over 50 % to 70 %. The context during all 5 years, where aid was no less than half a billion dollars, underscored the level of need of humanitarian assistance while foreshadowing what the absence of that aid may have meant for vulnerable Somali citizens.

Figure 20: Allocation of Humanitarian Assistance to Somalia (2020-2024)



Source: Financial Tracking Service website (UNOCHA)

V. Impact of ODA Cuts – Preliminary and Prospective Effects

Economic Impact of ODA Cuts - Overview

There is broad consensus that the ODA cuts will weaken economic growth, the external sector and socioeconomic outcomes, particularly for vulnerable groups. In the immediate aftermath of massive retrenching in ODA commitments by DAC donor countries, the Somalia Ministry of Finance and multilateral partners in unison highlighted the negative impacts they would bring upon the Somali economy, social service and humanitarian assistance delivery. Preliminary research and reports have added both credence and quantitative grounding to their assessment.

Prior to economists fully accounting for ODA cuts in Somalia's economic growth outlook, Somalia was projected to continue experiencing robust growth 4 % in 2025 and 4.1 % in 2026-27, driven by strong private consumption and gross fixed capital formation growth.

Figure 21: MPO Economic Projections by World Bank - Spring Meetings 2025

Recent history and projections	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices	2.7	4.2	4.0	4.0	4.1	4.1
Private consumption	4.7	4.5	6.0	4.6	4.4	3.5
Government consumption	12.2	5.0	10.2	3.1	0.5	1.0
Gross fixed capital investment	31.5	8.7	9.8	10.2	10.4	10.0
Exports, goods and services	13.7	17.5	10.7	8.2	8.0	8.0
Imports, goods and services	18.8	9.5	11.4	7.8	7.3	6.0
Inflation (consumer price index)	6.8	6.2	5.5	4.2	3.6	3.4
Current account balance (% of GDP)	-8.6	-9.3	-8.9	-8.7	-9.8	-10.0
Fiscal balance (% of GDP)	0.0	0.1	0.1	-0.1	-0.5	0.6
Revenues (% of GDP)	7.1	6.7	7.6	7.9	6.6	7.5
Debt (% of GDP)	38.2	7.0	6.4	6.2	6.0	5.8
Primary balance (% of GDP)	0.1	0.2	0.2	0.0	-0.4	0.7
National poverty line¹	54.4	53.2	51.1	50.3	49.2	48.2
GHG emissions growth (mtCO2e)	-0.8	-0.2	0.2	0.2	0.1	0.0

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Projections are based on applying private consumption growth to household consumption, with a neutral distribution.

In the wake of first aid cuts by the United States, prima facie analysis conducted by the MoF team assessed the sudden US aid cuts and disbanding of USAID could impact the economy to the tune of 4.6 % of GDP. This also comports with IMF Staff Report for the 3rd Review of the Extended Credit Facility in 2025, where the IMF assessed a possible drop in aid inflows to the tune of US\$ 400M to 600M, approximately 3.25 to 5 % of GDP.

The authors will leverage the impact of ODA cuts on the economy through the consumption channel. The vectors through which the MoF team predict impact on growth will manifest will likely be lower consumption growth, this expected to be further dependency on aid from vulnerable communities. This is already validated by the fact

that consumption is the workhorse of the Somali economy, measuring ~133% of GDP (SNBS, 2024). As such, the MoF team will focus its estimation of the impact leveraging consumption variables (private and government consumption) before extrapolating pass-on effects on the external sector (i.e. imports). Furthermore, the team will also explore potential knock-on effects on domestic revenue collection given how integral on-budget grant support is to functioning of the Federal Government of Somalia and Federal Member States (FMS).

An added consideration, though absent in this paper, are the multi-year effects of the disruption of crucial development/humanitarian aid on human capital development, and, in turn, long-term ramifications on the economy. There is a litany of literature that underscores the importance of human capital development as an enabler for economic growth in the medium to long run. Investments in health and education have been shown to catalyze economic development in low/middle-income African countries (J. Bane, 2018; K. Ogundari et. al., 2018). In terms of education, a 1% increase in education expenditure results in a 9% rise in long-term economic growth (M. Kabara et al., 2024) while a 10% in health expenditures affect economic growth by 1.57% (B. Aboubacar & D. Xu, 2017). Conversely, the World Bank estimated malnutrition costs African countries 2-16% of GDP annually through reduced labor productivity and diminished human capital formation (I. Gannoun, S. Aldossari et al., 2026). This is very salient for Somalia considering how ODA primarily finances development and humanitarian engagements in health, food and nutrition, and education. Though the scope of this research is limited to instantaneous impacts of aid cuts, it remains plausible that any inaction vis-à-vis the negative impacts of aid cuts (malnutrition, lower health outcomes, decreased educational attainment) would reverse any gains in Somalia socioeconomic profile in addition to undercutting its medium to long term economic development trajectory.

The authors, due to data limitations and scope of the policy paper, applied the dynamic regression models in the previous section, to assess the effect of ODA cuts using two scenarios; the results of the analysis apply for years where ODA cuts have occurred. Given the primacy of ODA in Somalia's economy and its clear transmission effect via consumption over multiple years, the MoF employed a dynamic regression model using time series data covered in the quantitative framework laid out in the previous section to estimate short-term effects that correlate with ODA flow dynamics and, hence, shocks. Due to the paucity of time series data covering Somalia, utilizing long-run equilibrium models, namely Autoregressive Distributed Lag model (ARDL) and Error Correction Model (ECM) weren't tenable for the MoF team.

The approach simulates 2 shock scenarios and what they may entail in terms of consumption (private and government), imports, domestic revenue, and concluding with GDP growth prospects. The 2 scenarios involve **(1) a US\$ 450 million reduction in**

ODA and US\$ 150 million cuts in on-budget grants, and (2) a US\$ 600 million reduction in ODA and US\$ 200 million slashing of on-budget grants. The MoF team will utilize elasticities for the areas of analysis to quantify potential impacts relative to the baseline forecasts for 2025 and 2026.

The team, after revising 2025 projected growth through the simulated shocks, used the respective shares of GDP from 2024 to extrapolate 2025 GDP growth projections¹⁴.

Quantifying ODA Cuts on GDP and Consumption Growth

In the first scenario of US\$ 450 million cuts in ODA, the MoF team anticipates this to yield 1.4 percentage point (p.p.) drop in consumption growth against the baseline while import growth is projected to drop by 0.7 p.p. relative to the baseline. Applying the estimated dynamic relationships between aid flows, domestic demand, fiscal space, and growth, the analysis indicates that reductions in external assistance would have material macroeconomic consequences in 2025. A sizeable contraction in ODA is transmitted first through household demand, with lower aid inflows reducing private consumption growth via income and liquidity channels. While remittance inflows provide some cushioning, it may not be sufficient to buffer consumption shock *ceteris paribus*. Similarly, imports growth through the consumption channel is expected to drop given the consistent import demand exhibited by Somali consumers over the years.

In the second more drastic scenario, the downward revision to consumption would be 2.2 p.p. while import growth prospects will be 1.0 p.p. less than the projection in early 2025. In this 2nd scenario, given the established relationship binding ODA flows and consumption and its robustness, it follows that higher ODA shocks would cause a greater downward revision relative to the baseline. Moving to a scenario with an additional US\$ 150 million ODA cuts is associated with a further 0.8 p.p. downgrade in consumption or 0.53 p.p. downgrade per US\$ 100 million slashed in ODA. This not only underscores the strong positive elasticity of an ODA shock on aggregate demand but, more importantly, what it portends for economic growth for these shock years.

Invariably, the MoF team anticipates negative ripple effects on GDP growth; in scenario 1, GDP growth projections are reduced by roughly 1.2 percentage points while in scenario 2, GDP growth expectations would be 1.6 percentage points compared to the baseline in 2025. The results from this analysis align with, rather than contradict, recent downward revisions to Somalia's 2025 outlook by the World Bank, IMF, and the National Economic Council, an advisory body of economists that sits within the Office of the President of Somalia. While the magnitude of the first-round

¹⁴ Shares of GDP used to calculate projected GDP growth in 2025 were: ~133% (HFCE), 7.8% (GFCE), 26.8% (GFCF), 31.2% (Exports), and 99.1% (Imports). This was sourced from SNBS.

effects estimated by the MoF team is more pronounced than those embedded in the World Bank and IMF forecast downgrades, the direction and transmission channels are fully aligned. Furthermore, the larger downward revisions in the official projections reflect the incorporation of broader second-round and general-equilibrium effects—scaling back of aid-financed activity, spillovers to services and labor incomes, and heightened uncertainty affecting private spending and trade.

Table 6: Estimates of ODA Impact on Economy (MoF, IMF/WB and NEC)

Revision to GDP Components by Scenario	Somalia MoF	IMF/WB	National Economic Council (Office of President)
HH cons. revision (2025)	(1) -2.38 p.p. (2) -3.29 p.p.	N/A	-1.3 p.p. (4.6 percent -> 3.3 percent)
Gov't cons. revision (2025)	(1) -0.98 p.p. (2) -1.36	N/A	-0.8 p.p. (3.1 percent -> 2.3 percent)
Final cons. Expenditure (2025)	(1) -1.4 p.p. (2) -2.2 p.p.	(1) -1.2 p.p. (2) -1.9 p.p.	N/A
Import revision (2025)	(1) -0.7 p.p. (2) -1.0 p.p.	(1) -0.9 p.p. (2) -1.3 p.p.	-0.8 p.p. (7.8 percent -> 7.0 percent)
GDP projection (2025)	(1) -1.16 p.p. (proj. growth of 2.84 percent). (2) -1.64 p.p. (proj. growth of 2.36 percent)	(1) -0.8 p.p. (2) -1.4 p.p.	Still downward revision by -1.0 p.p

Figure 22: MPO Economic Projections by World Bank - Annual Meetings 2025

Recent history and projections	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	2.7	4.2	4.1	3.0	3.5	3.5
Private consumption	4.7	4.5	4.5	1.1	4.5	4.7
Government consumption	12.2	5.0	10.2	-1.9	-5.9	0.6
Gross fixed capital investment	31.5	8.7	6.5	2.0	5.3	7.0
Exports, goods and services	13.7	17.5	3.2	3.5	3.5	3.0
Imports, goods and services	18.8	9.5	5.8	-0.7	4.8	6.2
Inflation (consumer price index)	6.8	6.2	5.5	4.7	4.0	3.4
Current account balance (% of GDP)	-8.6	-9.8	-9.1	-7.9	-8.5	-8.7
Fiscal balance (% of GDP)	0.0	-0.4	0.1	-0.5	-0.5	-0.5
Revenues (% of GDP)	7.1	6.3	7.4	7.7	6.5	6.0
Debt (% of GDP)	38.2	10.2	9.1	8.7	8.4	8.5
Primary balance (% of GDP)	0.1	-0.3	0.2	-0.4	-0.4	-0.5
National poverty line¹	54.4	53.4	52.9	54.4	53.5	52.7
GHG emissions growth (mtCO2e)	-0.2	-0.1	0.0	0.1	0.1	0.1

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Projections are based on applying private consumption growth to household consumption, with a neutral distribution.

Quantifying the Fiscal Impacts

Domestic revenue performance for 2025, though experiencing positive growth, undershot previous 2025 projections by a larger margin than the team's regression model had estimated. Based on the IMF Spring Meeting MPO (Apr 2025), domestic revenue growth was previously forecasted to exhibit 12.5 % positive growth YoY, or equaling net outrun US\$ 46 million. The team's regression model estimated the downgrade in growth expectations by 1.6 p.p. drag in growth relative to the 2025 forecast, though what materialized was an underperformance of 3.1 p.p. relative to the 2025 forecast. Though extensive analysis of revenue dynamics (economic activity, administrative efficiency, demand-side variables) would be needed to draw robust conclusions on the drivers of this underperformance, cursory analysis of the performance of tax and non-tax subcategories point to customs duty collection as being the force depressing domestic revenue growth.

Customs was and continues to be the largest contributor to public coffers in Somalia, averaging 44 % of all domestic revenue inlays (2020-25), followed by non-tax at 30 %. Customs collections experienced the first negative growth in 5 years, collections decreasing by approx. 6 % relative to 2024. Though this stands in sharp contrast with other positive trends shown by other tax and non-tax revenue inlays, it wasn't sufficient to counteract the negative pull effects of dampened customs collections.

Table 7: Annual Domestic Revenue Performance (YoY %)

Year	Income Tax	Taxes on goods and services	Customs	Other taxes	Non-tax
2020	38%	-15%	-15%	-1%	-4%
2021	-2%	10%	20%	32%	-7%
2022	18%	10%	7%	46%	21%
2023	31%	35%	33%	-32%	26%
2024	48%	34%	10%	-28%	0%
2025	24%	24%	-6%	87%	22%

Source: MoF data

Table 8: Composition of Domestic Revenue (Key Inlays)

Year	Income Tax	Taxes on goods and services	Customs	Other taxes	Non-tax
2020	8%	10%	43%	5%	34%
2021	7%	10%	47%	6%	29%
2022	7%	10%	44%	8%	31%
2023	7%	10%	46%	4%	31%
2024	10%	13%	46%	3%	28%
2025	11%	14%	39%	5%	31%

Source: MoF data

When viewed through the prism of Somalia's Medium Term Revenue Roadmap (MTRR) goal of increasing domestic revenue (revenue-to-GDP growth of 0.3 p.p. per year), Somalia is more likely to miss the mark in 2025; Somalia's domestic revenue performance is likely to fall around 0.1 percentage point growth against both the MoF team's projection of real GDP growth (2.6 %) and the World Bank/IMF projection (3.0 %). When factoring for the projected GDP deflator for 2025 (4.9 %), Somalia's economy would have had to contract by approx. 3.57 % for the country to still achieve the 0.3 percentage point growth goal.

Somalia's expenditure profile in 2025 highlights a drop in government expenditure, the prominence of recurrent expenditures in the form of wages (37.5 % of all expenditure), the lagging execution of project-based expenditure compared with 2024. Though expenditure levels in 2025 relative to 2024 have seen a slight bump of ~8 %, structural vulnerabilities associated with overreliance on project-based financing and on-budget grants manifested in execution levels of expenditure line items and realized spend relative to budgeted allocations. Government expenditure earmarked for 2025 was US\$ 1.36 billion though actual YTD didn't surpass US\$ 977.5 million, a 28 % underperformance in execution. The government expenditure lines experiencing the highest under-execution were social benefits (-75 %), non-financial assets (~61 %), use of goods and services (~36 %), and grant disbursements from donor-sourced project implementation. The smallest under-execution recorded within the key expenditure line items was compensation of employees (1.76 %), emphasizing the prioritization of paying wages of public sector workers, of which the single largest category of wages is disbursed to workers in the security sector.

Table 9: Government Expenditure (in US\$ millions)

Government Exp. Line items	2020	2021	2022	2023	2024	2025
Compensation of Employees	227.014	250.099	259.579	292.245	341.575	371.064
Use of Goods and Service	80.696	106.060	140.670	138.201	204.503	253.080
Fiscal transfers	80.283	45.851	111.243	126.273	117.719	170.149
Capital Expenditure	18.552	16.099	13.201	14.408	28.519	74.636
Other Expenditure	78.742	77.734	206.742	149.153	212.886	108.619
Total Expenditure	485.287	495.843	731.435	720.279	905.202	977.549

Source: MoF data

More forward-looking analysis by the team highlights how this shock bodes even more dire straits if Somalia doesn't address the root of this structural vulnerability – the mismatch between the domestic resources it currently mobilizes, and the level of expenditure needed for its integral operational needs. Crucial expenditure items such as compensation for public servants, fiscal transfers and procurement of goods is backstopped by donors to the tune of over 50 %. While the total budget spending is only about 7 % of GDP, roughly 57 % of the budget is contributed by the donors as budget support while the remainder comes from domestic revenue. Arising concerns stem from the fact that spending that is most dependent on ODA experienced the highest underperformance. This overlayed with the horizon of continuous ODA cuts in the coming years underscore the specter of even more fiscal distress.

VI. Proposed Programmatic and Policy Options – Pathways for Self-sufficiency and Resilience

This set of proposals towards addressing the current state of affairs will be divided across both volumes of the paper; Volume I will focus on reforms required of the FGS to shore up the domestic revenues per the government's own targets, towards laying the groundwork of Somalia gradually taking on the responsibility of social services delivery & humanitarian response, build up the institutional capacity needed to buffering against sudden shocks such as the ODA cuts. To that end, the paper sets out priority actions, the rationale for each action, and expected outcomes.

In Volume II, the paper will provide recommended actions (policy proposals and programmatic interventions) meant to stabilize the continued operations of the humanitarian sector.

1.) Augmenting Tax Collection towards Domestic Resource Mobilization

Objective

The ultimate objective is to expand Somalia's domestic tax base and modernize revenue collection through phased compliance enforcement, digital integration and national payments infrastructure within the Ministry of Finance, in addition to establishing excise taxation and levies on capital transfers aimed at appropriating domestic revenues towards national needs.

Rationale

At less than 3 % of GDP, Somalia's revenue-to-GDP ratio is structurally insufficient to finance even minimum state functions, let alone absorb the loss of ODA. The gap is not primarily a consequence of absent economic activity: mobile money transactions exceed USD 2.7 billion per month; personal remittances represent approximately 20 % of GDP; and the Central Bank's Somali Payment Switch and Somali Instant Payment System (SIPS, launched January 2025) now route a growing share of economic transactions through centralized payment rails.

The revenue challenge is therefore one of misalignment – between where economic value is concentrated and where enforceable taxation currently reaches. Closing this gap is essential to reducing Somalia's fiscal dependence on external grants. At the same time, the absence of a funded domestic contingency mechanism means that every humanitarian shock requires reactive, ad hoc financing, amplifying fiscal volatility precisely when the state's capacity to respond matters most.

Proposed Actions

Compliance and Enforcement

- Initiate phase-based individual income and corporate tax compliance tightening, beginning in Banaadir (where the largest identifiable taxpayer base is concentrated), and scaling systematically to FMS once enforcement protocols and taxpayer segmentation frameworks are operational. Moreover, sales tax enforcement has a potential to raise more revenues but requires establishing solid tax administration.
- Establish risk-based audits of high-turnover sectors, targeting firms with significant revenue proxies but low filing and payment compliance. The audit could be desk-based or field but the goal should be targeting large corporations whose payments are under the fair share of taxation.

Excise Taxation

- Institute excise taxes on a narrow set of administratively manageable goods with clear negative externalities towards public health and the environment: khat, tobacco, sugar/sugary products, and plastic and fuel products. Direct revenues through a dedicated health financing mechanism with transparent governance safeguards.

Digital Integration:

- Integrate tax administration systems with the Somali Payment Switch and SIPS, enabling automated transaction-level data sharing, establishing instant tax payments – which contributes to trade facilitation in customs revenue collection efficiency in the domestic tax offices.

Outbound Capital Transfer Tax Levy

- Enforce tax levies on all outbound capital transfers service fees with explicit exemptions for small household remittances, to minimize informalization risk and preserve the integrity of Somalia’s critical remittance economy.

Expected Outcomes

- Gradual and measurable increase in tax-to-GDP ratio through improved compliance, broadened excise base, and digital enforcement.
- Diversified domestic revenue structure – less reliant on customs as a single revenue handle and more resilient to aid volatility.
- Operational contingency reserve mechanism enabling faster, more transparent humanitarian response without recourse to ad hoc external financing.
- Improved integrity of fiscal data through digital payment-tax system integration.

Institutions and Roles in Intervention

ROLE	INSTITUTIONS (indicative)
Lead	Ministry of Finance (FGS); Banaadir Regional Administration
Government	FMS Revenue Authorities; Central Bank of Somalia; Ministry of Health (excise allocation)
Donor Partners	EU; UK development partners; bilateral revenue administration TA providers
Multilateral	IMF (revenue administration TA); World Bank; African Development Bank (AfDB)

2.) National Customs Harmonization and Transitioning to Ad Valorem Taxation

Objective

The proposed policy action would aim to standardize and harmonize customs collection across all federal and federal member state ports of entry through a *single national tariff rulebook*, establishing a coherent and uniform customs collection system. Moreover, this is a necessary pre-condition for fiscal federalism efforts in the country.

Rationale

Customs remain Somalia's primary domestic revenue handle. The current fragmented regime – in which FGS and Federal Member States (FMS) apply competing tariff schedules – drives inter-port revenue arbitrage and systematically erodes the aggregate tax base.

In a backdrop of declining ODA, protecting and expanding existing revenue handles is not optional – it is the first line of fiscal defense. Fragmented customs systems across FGS and FMS additionally heighten fiscal risk.

Proposed Actions

National Customs Harmonization:

- Implement a single national customs common procedure, declaration, and similar processes across all major ports of entry. . This simplifies the customs processes and contributes to trade facilitation.
- Align tariff schedules with the EAC Common External Tariff (CET) framework, drawing on ongoing IMF Technical Assistance.
- Introduce a standardized customs enforcement and clearance guide, pertaining risk-based inspection targeting high-risk shipments, and verification of customs payment for goods in transit between ports and FMS destinations.
- Most importantly, establish an ad valorem EAC-based tariff schedule across points of trade entries. A preliminary analysis shows that does not only establish customs harmonization but installs a uniform tariff with a potential of doubling the baseline revenue currently collected by the FGS.

Operationalize Customs Revenue Collection as per the Baidoa agreement

- The FGS Ministry of Finance, in tandem with FMS Ministries of Finance, to develop a timebound action plan to divert an agreed-upon portion of all customs duties collected towards the national Treasury Single Account.

Initiate rollout of fiscal transfers to FMS compliant with diversion of customs revenue using a floor equal to the aggregate customs collection from the FMS in question.

Expected Outcomes

- Facilitate institutional coherence required for building fiscal and national self-sufficiency.
- Set Somalia on the path to increasing its domestic revenue-to-GDP ratio from 3.0 % toward 4.5 % by 2030, as per World Bank Somalia Economic Update (2025) projections under a harmonized customs scenario.
- Ensure seamless integration with EAC free trade area.
- Elimination of inter-port revenue arbitrage and reduction in customs leakage.

Institutions and Roles in Intervention

ROLE	INSTITUTIONS (Indicative)
Lead	Ministry of Finance (FGS)
Government	FMS Ministries of Finance; National Customs Authorities; Finance Ministers' Fiscal Forum
Donor Partners	EU (PFM reform support); UK development partners; bilateral TA providers
Multilateral	IMF (Technical Assistance lead – customs and PFM); World Bank (fiscal governance and intergovernmental finance)

3.) Operationalizing Prudent Public Financial Management Across FMS

Objective and Rationale

At the core of Somalia's low capacity of domestic revenue collection is the segmentation of PFMs across the FMS in Somalia. Quite an extensive number of public financial reforms have already been implemented in past PFM strategies, though the new PFM strategy (2026-2030) was recently announced in March 2026. While the previous PFM strategy was focused on rebuilding basic PFM laws, institutions and systems to meet debt-relief conditions, the PFM 2026-2030 Strategy marks a shift towards standardizing and integration those systems across all FMS. The core priorities are in strengthening budget preparation, credibility, and fiscal sustainability, enhancing public investment management and fiscal risk oversight, improving expenditure control and payroll

integrity, deepening federal fiscal coordination and harmonization, strengthening revenue administration and building sustainable capacity in the fiscal institutions.

Proposed Actions

Minimum PFM Protocol Pack:

- Enforce harmonized Uniform Chart of Accounts (UCoA) mapping and standardized monthly fiscal reporting templates across all FMS, with fixed submission deadlines covering revenue outturn, expenditure execution, and transfer utilization.
- Adopt minimum treasury controls: common bank-account rules, fixed reconciliation cadence, and commitment controls to prevent arrears accumulation.

Contingency Reserve Mechanism:

- Establish a rules-based domestic contingency fund – with transparent triggers, allocation criteria, and reporting requirements – funded by an annually committed share of domestic revenues, to enable rapid procurement and disbursement of emergency support when humanitarian shocks occur.

Fiscal federalism and PFM coordination

- Federal and state governments use different practices; reporting is fragmented; capacity differs across states; and reforms are often donor-driven rather than harmonized. Harmonized PFM systems and converging the fiscal practices and discipline are essential for consolidated fiscal reporting, credible transfers, and stronger federal-state fiscal cooperation.

Public investment management

- Operationalize the PPP and PIM legal and regulatory framework;
- Establish core PPP and PIM institutions, and build capacity for assessing, appraisal and contract management of PPP and PIM and identifying fiscal risks.

Tight Expenditure Policy

- Implement a tight expenditure policy during crises and until aid reliance reduced significantly;
- Conduct analysis on implementing the new grade and pay scale policy and implementing if it saves money.

Institutions and Roles in Intervention

ROLE	INSTITUTIONS (Indicative)
Lead	Ministry of Finance (FGS)
Government	FMS Ministries of Finance; National Customs Authorities; Finance Ministers' Fiscal Forum
Donor Partners	EU (PFM reform support); UK development partners; bilateral TA providers
Multilateral	IMF (Technical Assistance lead – customs and PFM); World Bank (fiscal governance and intergovernmental finance)

4.) Development Finance Strategy Formulation

Objective

Formulate and operationalize a Development Finance Strategy (DFS) that transitions Somalia from fragmented, grant-driven financing to a disciplined, state-led development finance model – anchored in domestic resource mobilization, concessional borrowing within a clear debt management framework, and governance safeguards that protect against renewed fiscal stress. A complimentary objective is for it to build off of the successes and challenges faced by the UNDP-led Integrated National Financing Framework (INFF).

Rationale

Somalia reached the HIPC Completion Point in 2023, reducing its debt burden from approximately 64 % of GDP to 6.4 % of GDP by end-2023 – reopening access to concessional borrowing and longer-tenor development finance for the first time in decades. This represents a historic opportunity. However, domestic revenues remain too limited to finance Somalia's development ambitions at scale, while ODA is declining toward 2020 levels by 2027 (OECD, 2025) with disproportionate effects on the poorest countries.

Without a coherent strategy to govern how Somalia assesses, prioritizes, and deploys available financing instruments – domestic revenues, concessional borrowing, grants, and private capital – the country faces two equally dangerous risks: a fiscal cliff as grants withdraw, or a return to unsustainable debt dynamics if new borrowing is not anchored to productive investment and robust safeguards. A DFS provides the institutional architecture to navigate between these risks: translating restored sovereign credibility into growth-enhancing investment while maintaining macro-fiscal discipline.

Given that there hasn't been a complete cycle of DFS planning and implementation, expected actions for the upcoming iteration would have to take stock of the learnings from the current Somalia INFF Strategy.

Institutions and Roles in Intervention

ROLE	INSTITUTIONS
Lead	Ministry of Finance; Ministry of Planning, Investment and Economic Development; PMO
Government	Central Bank of Somalia; FMS Governments; Attorney General's Office (legal framework)
Donor Partners	Bilateral Development Finance Institutions (DFIs); Gulf development funds; bilateral budget support partners
Multilateral	IMF (MTDS, debt management TA); World Bank (PFM, PIM, development finance); AfDB; IFC (private capital mobilization)

VII. Proposed Policy Matrix and Sequencing

The three proposals are mutually-reinforcing and should be implemented as an integrated framework rather than as standalone measures. Customs harmonization and PFM integration (Proposal I) provide immediate revenue protection and fiscal discipline that underpin all subsequent reforms. Tax augmentation (Proposal II) broadens the resource base and funds the contingency mechanisms needed to sustain service delivery during shocks. The DFS (Proposal III) provides the long-term financing architecture that gives all other reforms a coherent fiscal home, enabling Somalia to access concessional finance responsibly and reduce structural dependence on volatile grant flows.

Coordination across proposals is essential. The Finance Ministers' Fiscal Forum (Proposal I, II & III), a platform bringing together Ministers of Finance across FMS and FGS, would provide the intergovernmental governance platform through which revenue gains from customs harmonization and tax augmentation, in addition to updates on integration efforts of Somalia's PFM systems across the different FMS can be tracked and shared. Proposal IV, on the other hand, should leverage the stronger interministerial coordination platforms to articulate Somalia's development finance needs in a collaborative manner as well as pertinent insights from all engagements in Proposals I to III.

International partners and multilateral institutions have critical roles in each proposal – providing technical assistance, bridge financing, and validation. Their support should be structured to reinforce, not substitute for, government ownership: every donor-financed element should carry an explicit timeline for transition to domestic financing and government-led management.

Policy Proposal	Time Horizon (from current date)	Lead Institution(s)	Core Objective
I. Tax Collection Augmentation	1-1.5 years	MoF (FGS); Banaadir Regional Admin; FMS Revenue Authorities	Expand tax base; build contingency reserve
II. Customs Harmonization	1-2 years	Ministry of Finance (FGS); FMS MoFs	Protect revenue; reduce fiscal fragmentation
III. PFM Integration Across FMS	1-2 years	Ministry of Finance (FGS); FMS MoFs	
IV. Development Finance Strategy	3–5 years	Ministry of Finance; National Planning Authority; Cabinet	Transition to disciplined, state-led development finance

VIII. Conclusion

The decline in ODA flows to Somalia marks a paradigm shift in the country's development financing landscape. This policy paper has shown that ODA has been a central to Somalia's macroeconomic stability, fiscal operations and social outcomes for more than a decade. Its rapid contraction is therefore transmitted across the entire economy, weakening consumption and growth, tightening fiscal space and precipitating a collapse in social and humanitarian services that neither current state capacity nor domestic resources can replace in the near term.

The consequence, hence, of inaction are clear. Abrupt development aid withdrawal risks reversing hard-earned gains achieved since 2012, undermining institutional rebuilding, eroding human capital and deepening poverty and vulnerability in the country. At the same time, the ramifications on stability in the country and the trajectory of institutional capacitation are exposed to will only undercut the country's development potential and magnify the impact of recurring shocks, primarily climatic shocks.

The policy challenge, therefore, is one of sequencing and balance. Somalia must accelerate the continued building of the foundations of self-sufficiency – protecting and

expanding domestic revenue collection, strengthening public institutions and judiciously deploying new financing instruments. All while avoiding the retreat from the provision of crucial service delivery and the systems that enable its deployment. This requires harmonizing fiscal functions towards greater efficiency, coordinated action across all federal member states, stabilization of human capital service delivery while remaining committed towards long-term fiscal discipline via a coherent public and development finance strategy.

The urgency of this moment cannot be overstated. Delayed or piecemeal responses will not yield tangible fruit, rather sharp discontinuities in service delivery, economic growth and general welfare. By contrast, decisive and comprehensive action that bring together the landscape of actors engaging in development policy and ODA – government institutions, bilateral donors and multilateral organizations – can preserve stability, protect core gains while placing Somalia on a credible path towards resilience and self-reliance. The choices made now will determine whether declining ODA becomes a setback or a turning point in Somalia's development trajectory.

IX. Appendices

Technical Note

The Ministry of Finance team, throughout the background sections and in the subsequent analysis, utilizes a combination of data sourced from the Federal Government of Somalia's Ministry of Finance (MoF), the Central Bank of Somalia (CBS), Ministry of Planning and International and Economic Development (MoPIED), the National Economic Council at the Office of the President, the World Bank, IMF, Organization of Economic Development (OECD) and a plethora of UN agencies towards building the quantitative scaffolding for the eventual impact estimates. More specifically, during the course of estimating the ODA growth elasticity effect on consumption, imports and fiscal inlay, the MoF team relies on World Bank and WDI data driven primarily by the need of using time trend data (10-12 years) while avoiding issues related to robustness of data caused by any structural breaks in data collection methods.

This design is intentionally reduced-form and dynamic, leveraging an OLS functional form to match Somalia's data constraints: limited annual time series data, massive exogenous shocks (COVID, drought), a rebasing of GDP data and the need for a transparent tool that translates aid shocks into macroeconomic implications without imposing heavy structural assumptions. The "dynamic" elements (lagged dependent variable and lagged remittances/customs) provide basic persistence and adjustment dynamics, while the shock dummies isolate discrete disruptions that would otherwise bias estimated elasticities. Practically, this framework yields elasticities from the time trends analysis that can be applied directly to simulate scenario impacts on demand-side GDP components and then mapped into GDP growth via the national accounts identity.

To translate the estimated consumption-side and imports-side elasticities into a GDP growth downgrade, we close the system using the expenditure identity for real GDP and Somalia's observed expenditure weights. In growth-rate approximation, real GDP on the expenditure side is $Y_t \equiv C_t + I_t + G_t + X_t - M_t$, so the change in the GDP growth rate implied by a shock scenario s can be written as a weighted sum of component-growth revisions:

$$\Delta g_Y^{(s)} \approx s_C \Delta g_C^{(s)} + s_G \Delta g_G^{(s)} + s_I \Delta g_I^{(s)} + s_X \Delta g_X^{(s)} - s_M \Delta g_M^{(s)},$$

where s_k are expenditure shares (or constant-price contribution weights) anchored to Somalia's national accounts. After the regressions deliver scenario-specific revisions to component growth – most importantly a downgrade to consumption growth (via the ODA and on-budget grant elasticities) and a corresponding downgrade to import growth (via

the estimated consumption-to-imports pass-through)—the implied GDP revision is computed as the weighted sum of component revisions:

$$\Delta g_Y^{(s)} \approx s_C^{2024} \Delta g_C^{(s)} + s_G^{2024} \Delta g_G^{(s)} + s_I^{2024} \Delta g_I^{(s)} + s_X^{2024} \Delta g_X^{(s)} - s_M^{2024} \Delta g_M^{(s)}.$$

Here, s^{2024} are the 2024 national-accounts shares (or constant-price contribution weights), which ensure that the scenario impacts map into GDP in proportions consistent with Somalia's observed expenditure structure – i.e., a consumption shock reduces GDP directly through s_C^{2024} and indirectly through the import channel, with imports entering with a negative sign.

Below were the key variables applied in the analysis:

- $\Delta \ln(ODA)$: the exogenous “aid shock” driver for household demand. It proxies the liquidity/income support that affects private consumption in the short run.
- $\Delta \ln(OnBudgetGrants)$: the fiscal-space variable. It captures budget support that directly relaxes the government's cash constraint and sustains execution of government consumption (wages, goods/services, operations).
- $\Delta \ln(FinalCons)$: the absorption driver of imports. It operationalizes Somalia's import intensity—when consumption rises/falls, imports respond proportionally.
- $\Delta \ln(Remitt_{t-1})$: a buffering/financing control. Remittances affect household resources and import capacity; lagging allows for timing/inertia in transmission.
- $\Delta \ln(HHCons_{t-1})$: persistence/adjustment. It captures consumption smoothing and inertia—important in short samples and avoids attributing persistence to ODA.
- $\Delta \ln(Customs_{t-1})$: an administrative/collection proxy. It controls for revenue-collection capacity and timing effects relevant for government operations and budget execution.
- $COVID_t$: a discrete macro shock dummy capturing pandemic-era disruption to activity, trade logistics, and fiscal operations.
- $Drought_t$: a climate shock dummy capturing adverse years when incomes, trade flows, and humanitarian pressures shift sharply.

The functional form of the equations from which ODA and budgetary support growth elasticity effects were estimated:

A. Regression of GDP components on relevant variables

(1) Household consumption growth

$$\Delta HHCons_t = \alpha_{HH} + \beta_1 \Delta ODA_t + \beta_2 L(\Delta Remit_t) + \beta_3 L(\Delta HHCons_t) + \beta_4 COVID_t + \varepsilon_t^{HH}$$

(2) Government consumption growth

$$\Delta GovCons_t = \alpha_G + \beta_5 \Delta OnBudgetGrant_t + \beta_6 L(\Delta Customs_t) + \beta_7 Drought_t + \beta_8 COVID_t + \varepsilon_t^G$$

(3) Imports growth

$$\Delta Imports_t = \alpha_M + \beta_9 \Delta FinalConsExp_t + \beta_{10} L(\Delta Remit_t) + \beta_{11} Drought_t + \varepsilon_t^M$$

B. Regression of domestic revenue on relevant variables

(4) Domestic revenue growth

$$\Delta DomRev_t = \alpha_R + \beta_{12} \Delta OnBudgetGrant_t + \beta_{13} \Delta \ln(Imports_t)_{YoY} + \beta_{14} Drought_t + \beta_{15} COVID_t + \varepsilon_t^R$$

Regression Results

Regression of GDP and Key GDP Components on ODA, financial flow variables and shock events

Correlation of ODA, remittances, domestic revenue and COVID with economic growth			
	(1) GDP growth	(2) Consumption growth	(3) GCF growth
ODA growth (%)	0.180** (0.0344)	0.243** (0.0394)	0.0800 (0.199)
L.Remittance growth (%)	0.133 (0.0688)	0.299* (0.0847)	0.341 (0.473)
L.Domestic revenue growth (%)	0.0192 (0.104)	0.152 (0.118)	0.123 (0.461)
COVID shock dummy	-20.55** (3.256)	-24.54* (4.426)	-18.62 (14.53)
L.Final consumer exp growth (%)		-0.243 (0.174)	
L.Gross capital formation growth (%)			0.0179 (0.376)
Constant	3.237 (1.811)	1.584 (1.599)	8.694 (13.21)
Observations	9	9	9
R-squared	0.864	0.935	0.388

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Regression of GDP Components on ODA, financial flow and ext. sector variables, etc.

Dynamic regressions: Household Consumption, Government Consumption, and Imports

	(1) Δ HH Cons	(2) Δ Gov Cons	(3) Δ Imports
Δ in ODA disbursements	0.120*** (0.025)		
L.Δ in Remittance flows	0.072 (0.040)		0.246* (0.111)
L.Δ in Household Cons	-0.466* (0.184)		
COVID shock dummy	-0.112*** (0.013)	-0.021 (0.020)	
Δ in On-budget grant support		0.054** (0.016)	
L.Δ in Customs collection		-0.182 (0.228)	
Dummy var for drought years		0.078** (0.023)	-0.059** (0.022)
Δ in Final Cons. Exp.			0.482* (0.219)
Constant	0.107*** (0.016)	0.099*** (0.020)	0.058** (0.015)
Observations	9	10	9
R-squared	0.857	0.705	0.721

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

3) Regression of Domestic Revenue on ODA, Imports and Shock Events

Quantitative Relationship between Domestic Revenue & ODA

	(1) Δ Domestic Revenue
Δ in On-budget grant support	0.267*** (0.074)
Dummy var for drought years	-0.330 (0.200)
Diff. ln(imports), YoY	-2.646** (0.832)
COVID shock dummy	-0.586*** (0.091)
Constant	0.449*** (0.103)
Observations	12
R-squared	0.736

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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