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Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges

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Somali Public Agenda is a non-profit, non-partisan, and independent public policy and administration research and action organization based in Mogadishu. It aims to advance understanding and improvement of public policy and services in Somalia through evidence-based research and analysis, dialogue, policy and service design, and training..

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Executive Summary

Somalia's 2026 Federal Government budget reflects a fiscal system in gradual transition, where domestic revenue mobilization continues to improve, but external financing remains the dominant source of budget resources. In other words, while tax administration, customs collection, and non-tax revenues are expanding, the overall fiscal structure continues to be shaped by donor inflows, limiting fiscal autonomy.

The 2026 budget projects total revenues and grants of approximately $1.36 billion against expenditures of $1.39 billion, resulting in a fiscal deficit of about $29 million. Domestic revenue is expected to rise to $479 million, largely attributed to improvements in income taxes, goods and services taxes, and administrative fees. Nevertheless, customs duties and other import-dependent revenues remain highly exposed to external shocks, including global trade disruptions and fluctuations in external aid flows.

External grants account for $878.8 million, or 64.7 percent of total resources, with $174.4 million provided as direct budget support and $704.4 million allocated to donor-financed projects. This underscores the continued reliance on external financing and the dominance of project-based implementation modalities.

Sectoral allocations indicate increased spending on security, infrastructure, and administrative functions, alongside reductions in key social sectors such as health and social protection. At the same time, concerns persist regarding fiscal transparency and efficiency, including limited disclosure of public asset transactions and rising operational expenditures without corresponding performance reporting.

Regarding debt management, the budget underscores continued adherence to a cautious post-HIPC borrowing strategy. Debt-service obligations have declined substantially, from $13.8 million in 2025 to $7 million in 2026, and new financing remains concessional. At the same time, emerging fiscal risks are evident through government-backed guarantees and significant investments in state-owned financial institutions, including the Somali Development and Reconstruction Bank. These commitments may generate future liabilities if they are not supported by strong governance and oversight frameworks.

To strengthen fiscal resilience, the government should prioritize expanding domestic revenue through the implementation of fiscal federalism agreements and investments in revenue-generating infrastructure. At the same time, greater transparency in public asset management and stronger performance-based expenditure reporting will be essential to improve accountability, enhance public trust, and ensure that budget resources deliver tangible development outcomes.

Introduction

The Federal Government of Somalia's annual budget is prepared by the Ministry of Finance and submitted to the Council of Ministers for approval before being transmitted to Parliament. In accordance with constitutional requirements and established procedures, the budget is reviewed and approved by both chambers of the Federal Parliament, the House of the People and the Upper House, before being enacted into law and assented to by the President. This institutional process forms the backbone of Somalia's public financial management system and reflects ongoing efforts to strengthen fiscal governance, budget discipline, and legislative oversight.

The 2026 Federal Budget represents the government's consolidated fiscal framework for the year, outlining expected revenues, expenditure allocations, and financing requirements. It is prepared in a context of ongoing post-Heavily Indebted Poor Countries (HIPC) fiscal consolidation and economic reform efforts supported by domestic institutions and international partners, including the International Monetary Fund (IMF). Somalia reached the completion point of the HIPC Initiative on December 2023. Despite progress in strengthening revenue administration and public financial systems, Somalia continues to face structural constraints, particularly its reliance on external financing to sustain core government functions and development priorities.

This policy paper provides a comprehensive analysis of the 2026 budget, focusing on revenue composition, expenditure priorities, fiscal balance, and emerging fiscal risks. It also examines broader public financial management issues, including transparency, accountability, and the efficiency of resource allocation and execution.

The analysis draws on the 2026 Budget Appropriation Act, budget annexes, the 2025 End-Year Budget Performance Report, IMF publications, and other relevant policy documents. The policy paper combines descriptive budget analysis with governance and public financial management perspectives to assess not only how resources are allocated but also the extent to which budget decisions support accountability, sustainability, and effective public service delivery.

The paper is organized into five main sections. The first examines the composition of government revenues, including domestic revenues and donor support. The second analyzes sectoral expenditure allocations and government spending priorities. The third provides a cross-sectoral assessment of expenditure trends and implementation challenges. The fourth reviews the budget deficit, debt management framework, and key fiscal risks. The final section presents policy recommendations aimed at strengthening fiscal sustainability, transparency, accountability, and budget effectiveness.

By assessing both fiscal performance and governance dynamics, the paper aims to contribute to a clearer understanding of Somalia's fiscal trajectory and to inform policy discussions on strengthening domestic resource mobilization, improving expenditure efficiency, and enhancing transparency and accountability in public financial management. All monetary figures presented in this paper are denominated in U.S. dollars.

Revenue Sources

The 2026 Federal Budget reflects a continued greater reliance on and donor contributions in comparison to domestic revenue. However, domestic revenue is projected to reach $479 million, representing an 11.5 percent increase from the $430 million estimate for 2025. This upward trend indicates ongoing, albeit incremental, improvements in fiscal capacity. The majority of domestic revenue remains anchored in tax receipts and administrative fees.

Meanwhile, external grants account for $878.8 million, representing 64.7 percent of total budget resources. Of this amount, $174.4 million is provided as direct budget support, while $704.4 million is allocated to donor-funded projects.

Domestic Revenue

Customs and other import duties are projected at approximately $182 million in 2026, a slight decline from $186 million in 2025. These revenues are mainly collected at federal entry points, particularly Mogadishu Seaport and Aden Adde International Airport. Khat duties are projected to decline from $19.7 million to $17.1 million, a reduction of approximately 13 percent, returning to 2024 levels. Given their relatively small share of total revenue, the fiscal impact of khat duties remains limited. Export-related taxes remain minimal, at roughly $1 million, reflecting Somalia's continued reliance on imports and its narrow export base.

The 2025 End-Year Budget Performance Report shows that actual revenue from this source ($158.4 million) fell short of projected revenue ($186 million), partly due to reduced aid inflows and weakened purchasing power. Another contributing factor was the disruption of global trade routes, which caused rising food and fuel prices, as well as potential reductions in Gulf-based financial and humanitarian support resulting from the U.S.–Israel–Iran conflict (Ahmed, 2026). Taken together, these trends indicate gradual fiscal vulnerability alongside persistent external dependence.

Revenue from taxes on goods and services is projected to increase from $59 million in 2025 to $77 million in 2026. Unlike earlier periods, when revenue growth was partly associated with import expansion, the projected increase in 2026 is unlikely to be import-led, given the expected contraction in import volumes resulting from aid reductions and global trade disruptions linked to the Middle East conflict.

Instead, revenue growth is more plausibly driven by three structural factors: (i) the continued strengthening of tax enforcement measures introduced in late 2024, particularly in the "other goods" category, which already demonstrated strong performance in 2025 (Ministry of Finance , 2026); (ii) inflation-driven increases in the value of imported goods, particularly fuel, electronics, and foodstuffs, which may offset declines in import volumes, although this effect may be limited where import-related taxes are assessed using fixed or quantity-based methods rather than purely value-based taxation; and (iii) improved compliance and broader tax coverage across service sectors and urban consumption activities.

Taxes on income, profits, and capital gains are projected to reach $53 million in 2026, a substantial increase from $38 million in 2025. This growth is driven by higher yields from both corporate and personal income taxes, with corporate tax revenue projected to double year-on-year, increasing from $4 million in 2024 to $7 million in 2025 and $14 million in 2026. Since many small businesses in Somalia operate informally and are generally subject to municipal fees rather than federal income or profit taxes, the projected increase in income and corporate tax revenues largely reflects improved revenue collection from the formal sector.

Other taxes are projected to increase from $11.8 million in 2025 to $14.4 million in 2026. The increase arises primarily from higher projected collections from stamp duties on permits and licences, which rise from $4.0 million to $5.3 million, and stamp duties on invoices and contracts, which increase from $3.3 million to $5.8 million. Together, these two sources account for most of the projected growth. In contrast, road worthiness taxes and food stamp taxes are expected to decline from their 2025 levels. This indicates that these revenue sources are expected to play a smaller role in domestic revenue collection.

Other revenue is projected to increase from $135.1 million in 2025 to $151.9 million in 2026, continuing its upward trajectory from $102.6 million in 2024. This increase results from both growth in existing non-tax revenue sources and the introduction of new revenue streams. Notable contributors include higher collections from government property rentals, projected at $1.8 million, and new revenues from market infrastructure ($6.9 million) and research and data services ($6.2 million). In addition, revenues from fines and penalties are expected to rise from virtually zero in 2025 to $1.1 million in 2026.

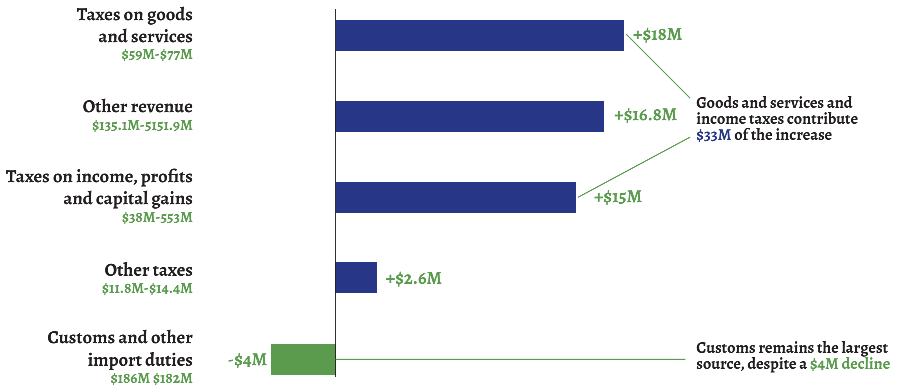
Within this broader category, administrative fees remain the largest component, increasing from $135.1 million to $138.4 million. Growth in administrative fees is largely driven by higher collections from Albayrak port fees, which rise from $35.3 million to $40.9 million, and aviation-related charges (IATA), which increase from $27.5 million to $30.7 million. However, several fee categories, including visa fees, passport fees, telecommunications fees, and certain licensing charges, are projected to decline. This indicates that the overall increase is concentrated in a limited number of high-yield revenue streams rather than being broad-based across all government service fees.

Figure 1.1: Sources of Growth in Domestic Revenue (2025–2026)

Consumption, income and non-tax receipts drive the $49 million rise in domestic revenue

Major domestic revenue categories, 2025 estimate versus 2026 projection, USD millions

Total domestic revenue: $430M in 2025 to $479M in 2026



Source: Somali Public Agenda, Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges, June 2026.

Revenue from property-related sources remains negligible in the federal government's fiscal accounts. Both property rent and land lease categories report zero or near-zero realized revenue, and there is no identifiable line item for land sales in the End-Year Budget Performance Report. This suggests that land and property assets are not systematically integrated into the federal government's formal revenue classification and public financial management (PFM) framework.

Given the economic, fiscal, and political significance of urban land markets in Mogadishu, this gap highlights weaknesses in transparency, accountability, and fiscal management. While core domestic revenues such as customs duties, consumption taxes, and administrative fees are relatively well documented, property-linked revenues appear either unrecorded within central government accounts or managed outside the formal treasury system.

In public statements, the Federal Government has emphasized its commitment to financing national priorities, including elections, through domestic resources. Yet the absence of any recorded land-sale revenue in official fiscal reports creates a material traceability gap between stated financing sources and documented fiscal inflows.

At a systemic level, if large-scale public land transactions in the capital are not reflected in national accounts, this raises questions regarding the completeness of fiscal oversight and the integrity of asset-management systems, including the extent to which other forms of public asset disposal or off-budget transactions may similarly fall outside transparent reporting frameworks. This creates a serious accountability gap and increases the risk that such proceeds are not subject to parliamentary oversight or treasury control.

Donor Revenue

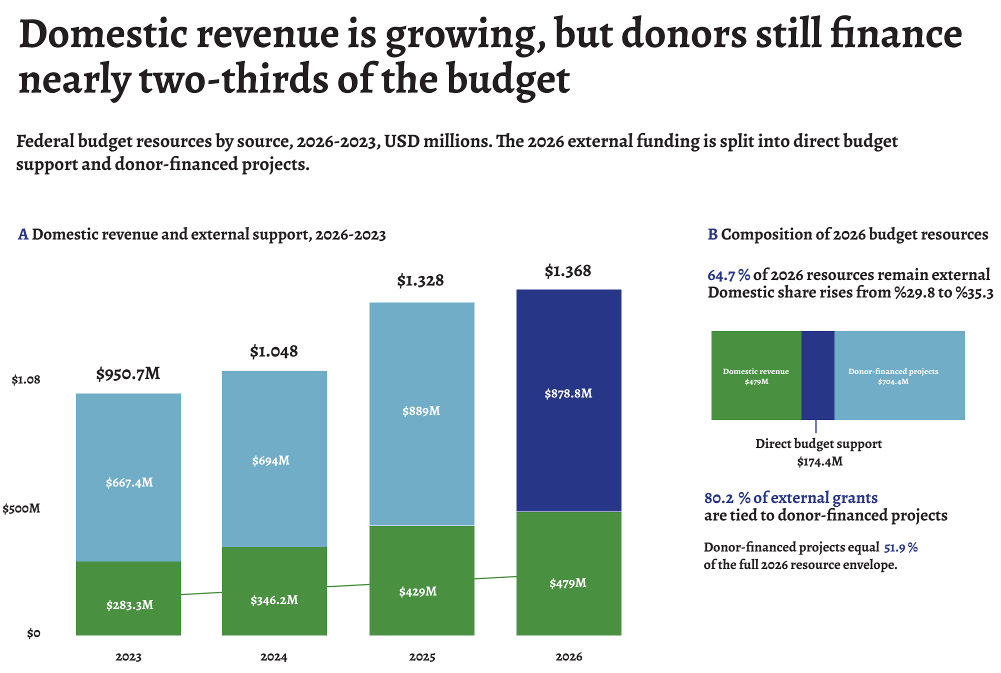
Figure 1.2 shows that Somalia's fiscal structure remains heavily dependent on external financing, even as domestic revenue continues to grow steadily. Donor support consistently exceeds domestic revenue, financing roughly two-thirds of the budget in most years.

While domestic revenue projection increased from approximately $283.3 million to $479 million between 2023 and 2026, indicating gradual improvements in tax mobilization and administrative capacity, it remains insufficient to meaningfully alter the overall financing structure.

External support also fluctuates, with a notable spike in 2025 before declining slightly in 2026. This underscores the volatility associated with donor-driven inflows and project-based financing. Although there has been a modest improvement in the domestic share of total revenues, rising from approximately 30 percent to 35 percent, the shift remains incremental rather than transformational.

Overall, domestic revenue mobilization is strengthening, but Somalia's budget remains structurally anchored in external assistance, leaving fiscal planning vulnerable to donor priorities and disbursement cycles.

Figure 1.2: Domestic Revenue vs External Support (2023–2026)



Source: Somali Public Agenda, Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges, June 2026.

The structure of the 2026 budget also highlights the continued dominance of externally financed project implementation. Donor grants amount to $878.8 million, accounting for 64.7 percent of total budget resources. Within this total, $174.4 million is disbursed as direct budget support, while the remaining $704.4 million is directed toward donor-financed projects.

This pattern suggests that a substantial portion of implementation capacity may continue to reside outside permanent government systems and within donor-financed project structures. Such arrangements can create several governance and institutional risks, including fragmentation of national priorities and limited long-term ownership of service-delivery systems. In other words, ministries may increasingly function as coordinators of externally financed programmes rather than fully autonomous implementers of national priorities.

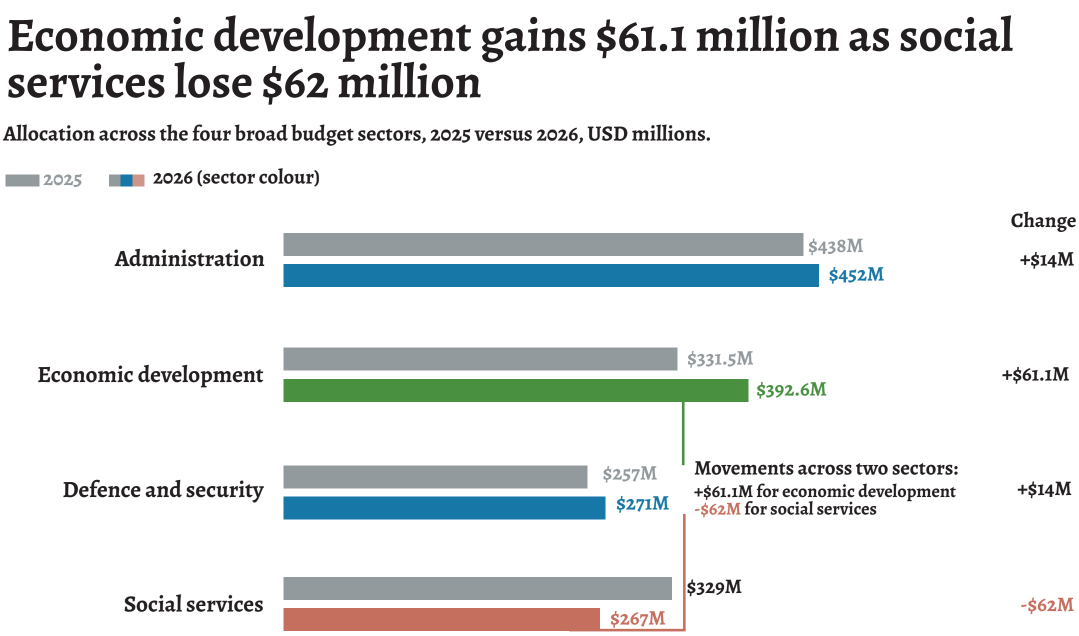
Just prior to the approval of the 2026 budget framework, the IMF completed the fourth review of Somalia's Extended Credit Facility programme and approved an additional $40 million in financing, including an immediate $30 million budget-support disbursement (International Monetary Fund, 2025). While this financing is not explicitly identified in the budget's external assistance tables, its timing suggests that it was likely incorporated into the overall fiscal envelope or, at a minimum, became available early in the budget execution period.

The IMF support provides important short-term fiscal space and signals continued confidence in Somalia's reform agenda, but it also confirms the country's continued reliance on external financing.

Sectoral Allocations

The 2026 Federal Budget allocates resources across four main sectors: administration, defence and security, economic development, and social services. These allocations reflect the government's current priorities and policy focus.

Figure 1.3: Allocations Across the Four Broad Budget Sectors (2025–2026)



Source: Somali Public Agenda, Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges, June 2026.
Notes: The report notes that much of the economic-development allocation is donor financed, while domestic revenue continues to cover recurrent administrative costs

Administration

The administration sector receives higher allocations for key executive and oversight institutions, increasing from $438 million in 2025 to $452 million in 2026. The figure (1.4) below outlines the year-on-year changes in funding for major government bodies, highlighting shifts in administrative spending priorities.

The 2026 budget for Somalia's administration and governance sector largely maintains stable funding for key institutions such as the Office of the Presidency and Parliament, with only minor adjustments to the budget of the Office of the Speaker. Executive functions and diplomatic services, including the Office of the Prime Minister and the Ministry of Foreign Affairs, experience only modest increases.

A notable decrease is observed in the Ministry of Finance, with both its core operations and related activities receiving lower allocations than in the previous year.

In contrast, the Ministry of Planning, Investment, and Economic Development benefits from a meaningful increase, primarily driven by a substantial expansion in funding for the National Bureau of Statistics. This suggests a growing emphasis on data-driven policymaking and development planning.

Within the Ministry of Interior, Federal Affairs, and Reconciliation resources are reallocated, with funding for the core ministry reduced while disaster and humanitarian management receives a significant increase. This shift underscores a growing focus on emergency response and humanitarian needs.

Judicial and oversight institutions, including the courts and the Office of the Attorney General, generally maintain stable funding levels, signaling a commitment to continuity in the justice sector. The most striking change is observed among the Special Commissions, which experience a dramatic increase in overall allocation. This surge is largely attributable to the National Independent Electoral and Boundaries Commission (NIEBC), which is expected to receive substantially higher funding in preparation for the ongoing elections. The NIEBC budget increased from $1 million in 2025 to 14 million in 2026.

The broader pattern within the administration sector reflects a balancing of governance, electoral preparation, planning capacity, and humanitarian response. While overall administrative expenditure continues to grow, questions remain regarding the extent to which increased allocations will translate into measurable improvements in institutional effectiveness and public service delivery.

Defense and Security

Funding for the defense and security sector increases from $257 million in 2025 to $271 million in 2026. The armed forces receive the most significant increase, while allocations for the police and most security agencies remain largely unchanged or increase only marginally.

The defense budget rises from $171 million to $185 million, with the majority of the increase directed toward the armed forces, whose allocation grows from $163 million to $177 million. Funding for the Ministry of Defense and the Military Court remains unchanged. This pattern suggests that the government's priority within the defense sector continues to be operational military capacity rather than administrative expansion.

For the national security budget appropriation, overall funding remains stable at approximately $86 million. Allocations for the Police Force remain unchanged at $49 million, while the National Intelligence and Security Agency (NISA) continue to receive $28 million. The Ministry of National Security and the Immigration Department receive only minor increases.

The distribution of funding suggests that the government continues to prioritize maintaining existing security structures while strengthening military operations.

Given Somalia's ongoing security challenges, including counterinsurgency efforts and state-building objectives, the increase in military expenditure reflects the central role of security in the government's overall policy agenda.

At the same time, the relatively limited growth in police and civilian security institutions may indicate that security-sector expansion remains focused primarily on military capabilities rather than broader law-enforcement or justice-sector reforms.

Table 1.1: Defense and Security Sector Allocations (2025–2026)

No.	Institution	Allocation for 2025	Allocation for 2026
1	Defense and National Security	257	271
	Defense	171	185
	Ministry of Defense	3.7	3.7
	Armed forces	163	177
	Military Court	3.7	3.7
	Orphans & Disabled	(93,000)	(93,000)
2	National Security	86	86
	Ministry of National Security	1.5	1.6
	Police Force	49	49
	National Intelligence and Security Agency (NISA)	28	28
	Immigration Department	6.4	6.5

Economic Development

The economic development sector receives expanded investment, particularly in water, energy, agriculture, livestock, fisheries, and transport. These allocations signal a continued effort to strengthen infrastructure and productive capacity.

The Ministry of Water and Energy records the largest increase, with its allocation rising from $92 million in 2025 to $138 million in 2026. This substantial increase underscores the government's emphasis on infrastructure development and utility services as drivers of economic growth. It also reflects donor-funded projects investing in water and energy infrastructures.

The Ministry of Agriculture also receives increased funding, rising from $57 million to $63 million. Additional resources are allocated to the Somali Agricultural Regulatory and Inspection Service, suggesting greater attention to agricultural regulation, quality assurance, and sector governance.

Similarly, the Ministry of Livestock and Forestry experiences a notable increase, with its allocation rising from $13 million to $21 million. Given the importance of livestock exports to Somalia's economy, this increase may reflect efforts to strengthen one of the country's most productive sectors.

Funding for the Ministry of Fisheries and Marine Resources also increases modestly, from $16.8 million to $18.5 million. Although the increase is relatively small, it signals continued recognition of the fisheries sector's economic potential and its contribution to employment and export earnings.

The transport sector experiences moderate growth. Funding for the Ministry of Transport and Aviation increases from $13 million to $18 million, driven primarily by higher allocations to civil aviation authority. This may reflect efforts to improve transportation infrastructure and enhance connectivity.

By contrast, some sectors receive reduced allocations. The Ministry of Public Works and Reconstruction declines slightly from $104 million to $99 million, while the Ministry of Commerce and Industry falls from $4 million to $3 million.

Overall, the pattern of allocations indicates a strategy focused on productive investment, infrastructure expansion, and support for sectors with significant economic growth potential. Water, energy, agriculture, livestock, and transport emerge as the principal beneficiaries of this development-oriented approach. However, the key nuance is that these investments are primarily coming from donors as Somalia's domestic revenue continues to cover recurrent administrative expenses and not investments in economic development.

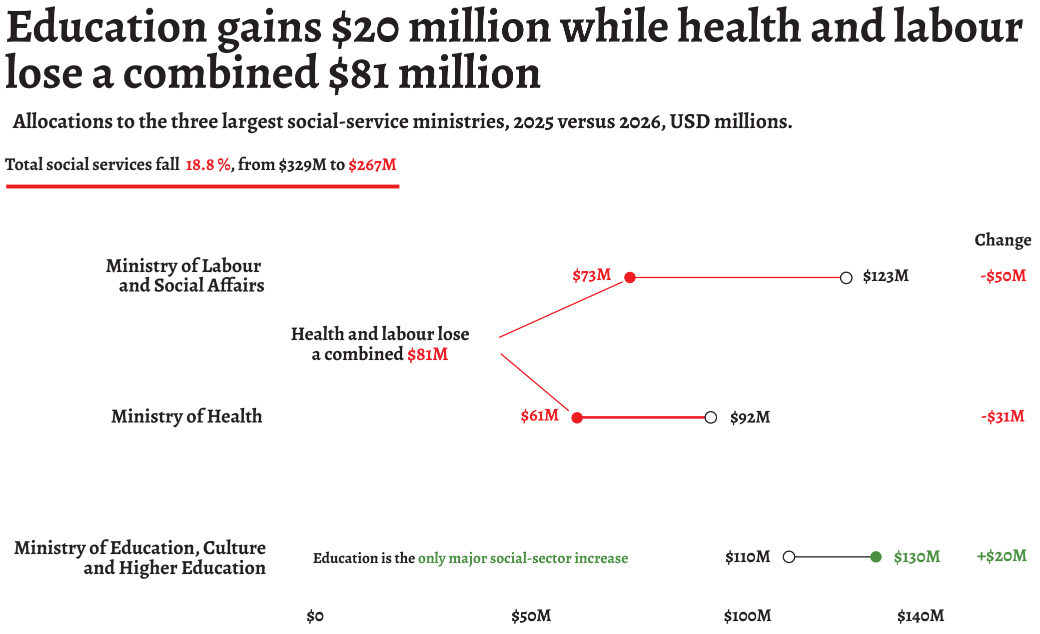
Social Services

Allocations for social services decline overall, falling from $329 million in 2025 to $267 million in 2026, a reduction of approximately $62 million. While the Ministry of Education, Culture, and Higher Education receives increased funding, the Ministry of Health and the Ministry of Labor and Social Affairs experience substantial cuts. This suggests a reallocation within the social sector rather than a broad expansion of social spending.

The Ministry of Health experiences one of the most significant reductions, with its allocation declining from $92 million to $61 million. Given the continuing challenges facing Somalia's healthcare system, including limited access to health services and dependence on donor-funded programmes, this reduction may raise concerns regarding service delivery capacity. It is also an indication of aid cuts in Somalia, which significantly impacted healthcare projects.

In contrast, the Ministry of Education, Culture, and Higher Education receives a substantial increase, with its allocation rising from $110 million to $130 million. Most of this increase is directed toward the ministry's core functions, while allocations for the Somali National University and other educational institutions remain stable. This pattern suggests a growing emphasis on educational development and human capital investment. The annual budget for education consistently increased over the past several years.

Figure 1.4: Allocations to the Three Largest Social-service Ministries (2025–2026)



Source: Somali Public Agenda, Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges, June 2026

Notes: The report links the health reduction to lower donor support and notes that Labour and Social Affairs manages large donor financed programs whose annual budgets fluctuate. The $81M figure combines the reductions in Health and Labour and Social Affairs. It is not the total social sector decline, which is 562M

The Ministry of Labor and Social Affairs experiences the largest reduction within the social sector, with funding falling from $123 million to $73 million. This decline may have implications for social protection programmes and assistance initiatives targeting vulnerable populations. The Ministry of Labor budget has fluctuated over the past years due to its management of large-scale donor projects such as Baxnaano, which have annual budgets that change almost every year.

Other social-sector institutions experience little change. Funding for the Ministry of Youth and Sports increases only marginally, while allocations for the Ministry of Family and Human Rights and the Ministry of Environment and Climate Change remain essentially unchanged.

The overall composition of social-sector spending suggests a shift in donor priorities. Health and social protection receive lower allocations due to cut in donor support in these areas.

Cross-sectoral Analysis

Rising Operational Expenditure and Administrative Expansion

One of the most notable trends in the 2026 budget is the substantial increase in recurrent operational expenditure under the category of "goods and services." The allocation for goods and services increased from approximately $134.5 million in 2025 to $176.3 million in 2026, representing an increase of $41.8 million, or 31.1 percent.

This category generally includes operational and administrative costs such as office expenditures, fuel, travel, workshops, procurement, communications, maintenance, consultancy services, and other logistical expenses required for the functioning of government institutions.

The increase is among the largest in the budget, yet the document provides limited explanation regarding the specific drivers of this growth or the expected improvements in service delivery associated with the additional spending. The budget provides detailed information regarding allocations for salaries, operational costs, projects, grants, and debt servicing, but offers limited information on outputs and performance indicators.

For example, the document does not clearly demonstrate:

- How many schools or health facilities are expected to be constructed;
- How many citizens will benefit from social programmes;
- How service coverage will improve;
- What performance benchmarks ministries are expected to achieve; or
- How expenditure increases will translate into improved public services.

Without detailed disaggregation, this category may create risks related to inflated operational costs, procurement inefficiencies, weak value-for-money oversight, and the expansion of government administration without corresponding improvements in public services. These concerns become more pronounced when coupled with reductions in social expenditure.

Reductions in Social Expenditure

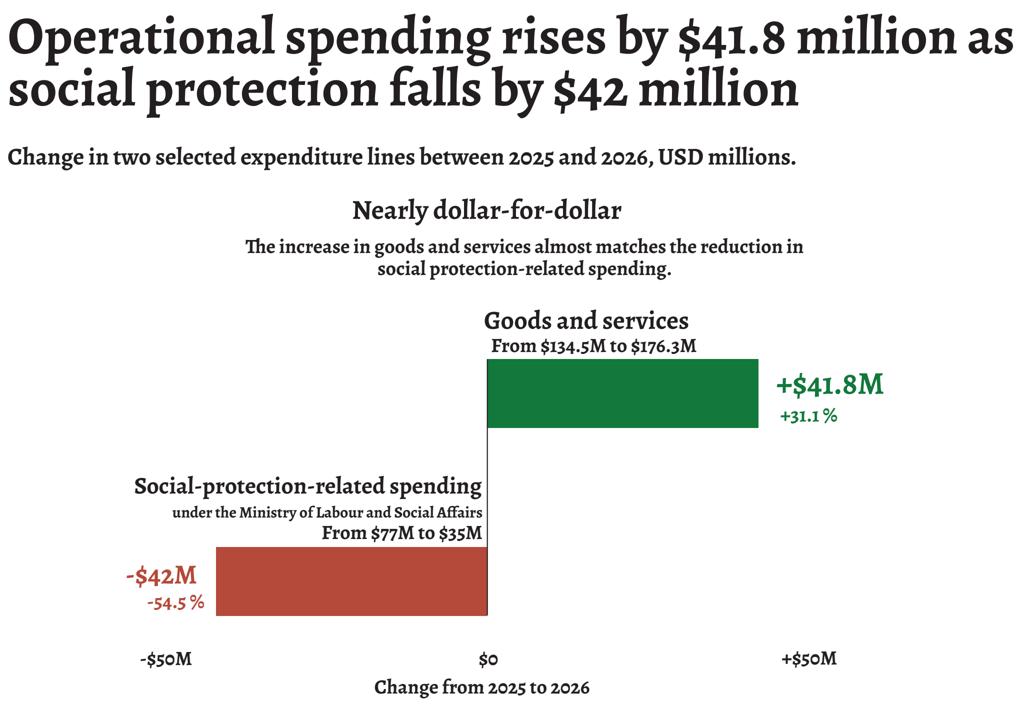
While operational expenditure increased significantly, the budget substantially reduced social protection-related spending under the Ministry of Labour and Social Affairs, from approximately $77 million in 2025 to $35 million in 2026, representing a decline of $42 million, or 54.5 percent.

The reduction raises concerns about the government's ability to maintain or expand social protection interventions administered through the ministry, particularly those targeting vulnerable populations. While the decline does not necessarily indicate a reduction in all social spending across government, it suggests a significant contraction in one of the primary institutions responsible for social welfare and assistance programmes.

The reduction may also reflect the impact of declining donor assistance and externally financed programmes, many of which have historically been implemented through social protection and humanitarian channels.

From a fiscal-governance perspective, the simultaneous expansion of operational expenditure and reduction in labour and social affairs spending may create perceptions that administrative spending is growing faster than direct citizen-facing programmes. This is particularly important in a context where the government continues to emphasize state legitimacy, domestic revenue mobilization, and citizen trust.

Figure 1.5: Operational Spending Versus Social Protection



Source: Somali Public Agenda, Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges, June 2026.

Notes: Goods and services includes office costs, fuel, travel, workshops, procurement, communications, maintenance, consultancies and logistics. The social-protection line is narrower than the Ministry of Labour and Social Affairs total shown in Chart 4

Budget Deficit, Debt Management, and Fiscal Risks

The 2026 budget's financing and debt strategy reveal several important fiscal dynamics that will continue to shape Somalia's fiscal sustainability in the post-HIPC period. While the budget demonstrates progress in debt management and domestic revenue mobilization, it also highlights persistent structural vulnerabilities and emerging fiscal risks that warrant close attention.

Despite substantial external assistance, Somalia continues to operate with a fiscal deficit. The 2026 budget projects total revenues and grants of $1.36 billion against planned expenditures of $1.39 billion, resulting in a budget deficit of approximately $29 million. The continued presence of a fiscal gap demonstrates that Somalia's domestic revenue base remains insufficient to fully finance government expenditure commitments. As the IMF (2025) notes, continued external support remains critical to sustaining the government's policy and reform agenda.

The budget also aligns with the government's commitment to maintaining a cautious post-HIPC debt strategy. Debt-service obligations decline significantly from $13.8 million in 2025 to $7 million in 2026, while external debt repayments under HIPC arrangements continue.

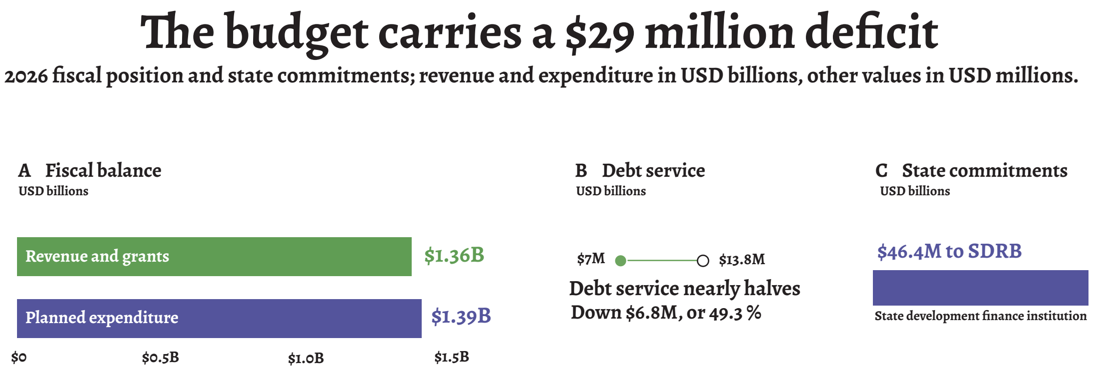
The drivers of this reduction are not clearly explained in the budget documentation. As a result, it is difficult to determine whether the decline reflects lower debt obligations, changes in repayment schedules, or other factors. New financing remains largely constrained to concessional borrowing and other highly concessional instruments, reflecting both fiscal prudence and recognition of the country's limited debt-carrying capacity.

A notable feature of the financing framework is the allocation of $46.4 million to the Somali Development and Reconstruction Bank (SDRB), a state-owned development finance institution established to support productive sectors such as agriculture, fisheries, infrastructure, renewable energy, and small and medium-sized enterprises.

The rationale behind this allocation appears to be the government's effort to use the fiscal space created by debt relief not only to reduce liabilities but also to stimulate long-term economic growth and productive investment. Development banks are often used to finance sectors that commercial banks consider too risky or insufficiently profitable.

The effectiveness of this investment will depend on strong governance arrangements, transparent lending practices, and the bank's ability to recover loans and generate sustainable economic returns. Without adequate oversight, there is a risk that scarce public resources could be converted into non-performing assets, thereby creating additional fiscal pressures in the future.

Figure 1.6: Fiscal Balance and Debt Servicing



Source: Somali Public Agenda, Somalia's 2026 Federal Budget: Fiscal Priorities, Revenue Trends, and Governance Challenges, June 2026
Note: The report states an approximately $29M deficit. Revenue and expenditure headline totals are rounded.

Another emerging concern relates to the introduction of contingent liabilities through government-backed guarantees. The budget introduces “Demand Guarantees” for strategic and private-sector-supported projects. Although these guarantees are not classified as direct public debt, they may create future financial obligations if projects fail to generate expected revenues or are unable to meet contractual commitments.

As a result, fiscal risks may increasingly arise outside conventional debt statistics through state-backed guarantees and project-related obligations. While such instruments can support investment and private-sector participation, they also require robust oversight, transparent reporting, and careful risk assessment to prevent the accumulation of hidden liabilities that could place future pressure on public finances.

Conclusion

The 2026 Federal Budget reflects a fiscal framework that is steadily evolving, with improvements in domestic revenue generation occurring alongside continued reliance on external financing. While recent reforms have strengthened elements of tax administration and broadened the revenue base, the structure of public finance continues to be shaped by external inflows, which influence both the scale and direction of public spending.

Overall, the budget illustrates a deliberate effort to balance debt sustainability with development financing needs. However, continued fiscal deficits, heavy dependence on external grants, investments in state-backed financial institutions, and the emergence of contingent liabilities underscore the importance of maintaining strong fiscal discipline, improving transparency, and strengthening oversight mechanisms to safeguard long-term fiscal stability.

Going forward, the sustainability of Somalia's fiscal framework will depend not only on continued revenue reforms but also on the quality of public financial management, transparency in resource utilization, and the effectiveness of institutional oversight.

Policy Recommendations

As Somalia moves into 2026, strengthening fiscal sustainability and improving budget implementation will require sustained reform efforts across multiple areas. The following recommendations are directed primarily at the Federal Government of Somalia, particularly the Ministry of Finance, as well as oversight, accountability, and other public institutions responsible for fiscal governance.

1. **Advance Fiscal Federalism**: Prioritize implementation of the Baidoa Agreement by establishing a formal and transparent revenue-sharing mechanism between the Federal Government and Federal Member States. This will help create a more balanced and predictable fiscal environment, expand the domestic tax base, and reduce dependence on external support.

2. **Invest in Revenue-Generating Infrastructure:** Continue to prioritize and modernize key infrastructure assets, including Mogadishu Seaport and Aden Adde International Airport. Enhanced customs enforcement and upgraded facilities will strengthen domestic resource mobilization and provide fiscal buffers amid uncertain donor funding.

3. **Strengthen Programme-Based Budgeting and Expenditure Reporting**: Condition future increases in operational expenditure on measurable service-delivery outcomes and require ministries to publicly report key performance indicators. This will improve budget transparency and strengthen accountability for results.

4. **Enhance Asset Transparency**: Address the ongoing lack of transparency in public asset management, particularly regarding proceeds from land sales, by requiring the Ministry of Finance to provide regular and detailed disclosures of all significant asset transactions. Establish and maintain an open-access asset registry to ensure that asset disposals benefit the public purse and remain subject to appropriate scrutiny.

5. **Reinforce Parliamentary Oversight**: Parliament should strengthen its oversight of the reallocation and reserve-spending powers granted to the Ministry of Finance. Clear reporting requirements, regular disclosure of fund transfers, and enhanced scrutiny of emergency expenditures should be introduced to ensure that these powers are exercised transparently and in accordance with the original intent of the approved budget.

6. **Mitigate Fiscal Risks**: Closely monitor the emergence of contingent liabilities, including government-backed guarantees and commitments to state-owned financial institutions. Develop robust risk-assessment, reporting, and oversight mechanisms to prevent the accumulation of hidden liabilities that could threaten long-term fiscal stability.

7. **Ensure Timely and Public Access to Budget Laws**: Address delays in the public release of approved budget legislation by establishing a clear and predictable practice of publishing the final enacted budget immediately following parliamentary approval and presidential assent. Public dissemination should clearly distinguish between draft, cabinet-approved, and final enacted versions.

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Better Governance for Brighter Somalia

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Our team is regularly called upon to provide analysis and commentary in the media, as well as to Somali government officials and the international community.

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