SOMALI PUBLIC AGENDA RESEARCH REPORT NO. 24

Aid Cuts in Somalia: Implications for Public Finances, Government Institutions, and Service Delivery

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Somali Public Agenda is a non-profit public policy and administration research organization based in Mogadishu, Somalia. Its aim is to advance understanding and improvement of public administration and public services in Somalia through evidence-based research and analysis..

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Acknowledgments

This Research Report is the fourth in a series of fiscal governance and federalism research publications under our EU-funded project, Increased Opportunities for Somali Citizens' Scrutiny of Fiscal and Financial Governance, which examines critical issues related to fiscal governance and federalism at the district level. The topics explored in this series are relevant to local financial management, such as fiscal federalism, debt relief, alternative financing models, new tax revenue streams, and public opinion on service delivery versus taxation trade-offs.

The report was edited by Peter Chonka (PhD), Senior Lecturer in Global Digital Cultures at King's College London and Fellow at Somali Public Agenda.

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Dr. Abdisalan has been a Professor of Economics, Accounting, and Finance at Somali National University since 2014, where he teaches undergraduate and postgraduate courses and supervises academic research. He has published extensively in international peer-reviewed journals and has led numerous funded research projects on financial inclusion, fintech, Islamic banking, economic policy, climate change, migration, public finance, and private sector development in Somalia and the wider region. He is fluent in Somali and English and is recognized for combining rigorous academic analysis with practical, policy-relevant insights.

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EXECUTIVE SUMMARY

The 2025–2026 reduction in international development assistance represents the most significant fiscal challenge facing the Federal Government of Somalia (FGS) since the beginning of its post-conflict state-building process. The suspension of major donor programmes, particularly the closure of USAID operations, and the broader reallocation of global Official Development Assistance (ODA) have exposed the vulnerability of Somalia's development financing model, where approximately two-thirds of the national budget has historically depended on external grants. While recent fiscal reforms strengthened domestic revenue performance and expanded the national budget, the sudden decline in external financing has placed severe pressure on public service delivery, institutional capacity, and fiscal sustainability.

This research report draws upon qualitative key informant interviews with officials from important government institutions, both houses of the federal Parliament, development partners, humanitarian agencies, and sector ministries, and is complemented by analysis of official budget and development financing data. The findings indicate that the aid reductions have affected multiple sectors simultaneously, leading to the closure of health facilities, suspension of education and humanitarian programmes, reduced livelihood support, and increased fiscal pressure on government institutions. The crisis has also brought to light structural weaknesses in Somalia's public financial management system, including heavy dependence on donor financing, fragmented aid delivery mechanisms, limited fiscal buffers, and insufficient domestic resource mobilization to sustain essential government services.

Despite these challenges, the Federal Government has initiated several important responses, including increasing domestic financing for priority sectors such as health, education and security, strengthening domestic revenue collection, establishing contingency financing mechanisms, and pursuing financing diversification through new development partnerships.

The aid shock demonstrates that Somalia's principal challenge extends beyond the immediate loss of external financing. It reveals the need to strengthen the country's public financial management architecture to improve resilience against future external shocks. The findings highlight four strategic priorities: enhancing fiscal risk management by incorporating aid volatility into budget planning; improving budget credibility through realistic expenditure prioritization and stronger cash management; accelerating domestic revenue mobilization to reduce long-term dependence on external grants; and increasing the use of country systems to improve aid effectiveness, government ownership, and institutional capacity.

Rather than viewing the current crisis solely as a humanitarian or financing emergency, it should be recognized as an opportunity to accelerate structural reforms that strengthen fiscal sustainability, institutional resilience, and nationally led development.

Key Policy Recommendations

To strengthen fiscal resilience and reduce long-term aid dependency, the study recommends

a phased reform agenda centered on five priorities:

1. Protect essential public services by establishing a Minimum Survival Service Package and strengthening fiscal contingency mechanisms during periods of financing shocks.

2. Strengthening public financial management through improved budget credibility, cash management, fiscal risk analysis, and accelerated domestic revenue mobilization.

3. Improve aid effectiveness by gradually increasing the use of national public financial management systems, strengthening coordination between government and development partners, and reducing reliance on fragmented off-budget financing mechanisms.

4. Diversify sustainable financing sources by expanding public-private partnerships, leveraging climate and Islamic finance, strengthening natural resource governance, and broadening international financing partnerships.

5. Build long-term institutional resilience through continued PFM reforms, stronger fiscal federalism, enhanced intergovernmental coordination, and investment in nationally led institutions capable of sustaining development with progressively greater reliance on domestic resources. Improved security could reduce the share of public spending devoted to the security sector, creating fiscal space to allocate more resources to development and service delivery, while a more stable environment could also support stronger domestic revenue mobilization.

The 2025–2026 aid shock should not be viewed solely as a financing crisis. Rather, it represents a strategic opportunity to redesign Somalia's public finance architecture around fiscal resilience, domestic resource mobilization, stronger country systems, and nationally led development. Successfully implementing these reforms will enable Somalia to gradually transition from a model of chronic aid dependency toward one of greater fiscal sustainability, institutional resilience, and national ownership of its development agenda

INTRODUCTION

Official Development Assistance (ODA) has long been a cornerstone of development financing for fragile and low-income countries, supporting public service delivery, humanitarian assistance, institutional development, and economic recovery where domestic resources remain limited (OECD, 2024; World Bank, 2025). However, the global aid landscape is undergoing a fundamental transformation. Since 2024, major bilateral donors have reduced development assistance in response to domestic fiscal pressures, shifting geopolitical priorities, and competing international crises. As a result, many aid-dependent countries are facing significant financing shortfalls that threaten development gains and fiscal stability (OECD, 2025; Development Initiatives, 2025).

Somalia is among the countries most exposed to these changes. Despite notable progress in rebuilding state institutions and strengthening public financial management following the establishment of the Federal Government in 2012 and the recent achievement of reaching the Heavily Indebted Poor Countries (HIPC) Completion Point, the country's development model remains heavily dependent on external financing (Ministry of Finance Volume I, 2026). In 2024, the Federal Government approved its first budget exceeding US$1 billion (Somali Public Agenda, 2024), yet donor grants financed approximately two-thirds of the national budget while domestic revenue remained below 3 percent of GDP (Ministry of Finance Volume I, 2026; IMF, 2025). This high level of aid dependency combined with the low level of domestic revenue has left Somalia particularly vulnerable to the recent contraction in international development assistance.

The Federal Government of Somalia (FGS) reached a historic fiscal milestone in 2024 when Parliament approved the country's first federal budget exceeding US$1 billion, totaling approximately US$1.079 billion. While this expansion represented an important achievement in the rebuilding of state fiscal capacity, the composition of the budget revealed a persistent structural constraint. As Somali Public Agenda's review of the 2024 budget demonstrated, 66.7 percent of the approved budget, equivalent to approximately US$694 million, was expected to come from external donors, compared with 33.3 percent from domestic revenue. The review further shows that donor financing was reflected not only in the overall size of the budget but also in the allocation of resources across sectors; for example, the sharp increase in the Ministry of Agriculture's allocation from US$1 million in 2023 to US$50 million in 2024 was largely associated with the availability of donor funding rather than necessarily representing an independent shift in government priorities. Thus, the achievement of a billion-dollar budget should not be interpreted solely as evidence of strengthened domestic fiscal capacity. Rather, it highlights a central challenge for Somalia's post-HIPC fiscal trajectory: the expansion of the federal budget has occurred alongside continued dependence on external financing. Strengthening domestic revenue mobilization and reducing this dependence therefore remain critical to the country's long-term fiscal sustainability and policy autonomy.

The fragility of this model was exposed in early 2025 when the international aid system underwent a seismic contraction. The primary catalyst was a fundamental shift in United States foreign policy, marked by the dissolution of the United States Agency for International

Development (USAID)—an organization that previously provided roughly 80 percent of Somalia's incoming aid.[1] This withdrawal was driven by an "America First" agenda that halted non-emergency funding and cited diplomatic tensions and oversight concerns as justification for freezing long-term development contracts.[2] The suddenness of this withdrawal created a financial vacuum that traditional partners have struggled to fill, pushing Somalia into what the Finance Committee member of the Federal Parliament of Somalia describes as a "survival stage" of public finance management.[3] This committee is mandated to review national budget proposals and fiscal legislation, monitor public expenditure, and exercise legislative oversight over government institutions to ensure financial accountability and transparency.

The crisis in Somalia is further compounded by intensifying global competition for dwindling Official Development Assistance (ODA). Major European donors, historically reliable partners in Somalia's state-building project, have been forced to recalibrate their assistance priorities due to the ongoing Russia–Ukraine conflict.[4] The resulting unprecedented increases in domestic defense spending among NATO members, combined with the urgent resource requirements of conflicts in Gaza and Sudan, have redirected international attention and funding away from the Horn of Africa.[5] Consequently, Somalia has slipped down the list of global priorities at a time when its internal needs—driven by climate shocks, persistent poverty, and an enduring insurgency—remain at an all-time high.[6]

Further pressure in 2026 comes from the suspension of budget support from the EU, World Bank, and IMF, linked to the political situation. Unlike other forms of aid, budget support directly affects the government's fiscal space and budget execution, and its predictability can be affected by political, governance, human rights, and corruption-related conditions. Its suspension therefore adds a distinct fiscal shock on top of the broader aid cuts. It may also affect Federal Member State (FMS) transfers, given the significant role of EU and World Bank budget support in financing fiscal transfers, raising an important state-building concern about the sustainability of relying on donor financing for a core pillar of Somalia's fragile federal system.

This research report examines the multi-dimensional implications of the 2025–2026 aid cut. It quantifies the macro-fiscal shock, which is estimated to reduce GDP growth by up to 1.6 percentage points and leave a funding gap for essential social services that exceeds the government's total domestic revenue capacity.[7] Beyond the fiscal ledgers, the study explores the "snowball effect" of these cuts: the closure of hundreds of health facilities, the suspension of education programs for millions of children, and the weakening of institutional capacity as technical advisors depart the country.[8] Most critically, it analyzes the threat these cuts pose

1 Interview with a UN Agency representative, Mogadishu, 7 June 2026.
2 Ibid
3 Interview with the Finance Committee member of the Federal Parliament of Somalia ,Mogadishu, 23 June 2026.
4 Interview with humanitarian agencies, Mogadishu, 23 May 2023.
5 Interview with humanitarian and development organization representative, Mogadishu, 22 May 2026.
6 Interview with a UN Agency representative, Mogadishu, 7 June 2026.
7 Interview with the Ministry of Finance, Mogadishu, 14-29 June 2026.
8 Interview with Ministry of Health representative, Mogadishu, 25 June 2026; Somali Disaster Management Agency (SoDMA), 9 July 2026

to state legitimacy and "human security," creating a service delivery vacuum that extremist groups like Al-Shabaab are poised to exploit.[9]

This report outlines a roadmap for the FGS to transition from a reactive, donor-dependent state toward a model of fiscal sovereignty. By synthesizing data from all major stakeholders—including the Ministries of Finance, Planning, Health, and Education, as well as the Somali Disaster Management Agency (SoDMA)—this report provides a comprehensive framework for diversifying international partnerships, intensifying domestic revenue mobilization, and institutionalizing a nationally-led resilience model that can withstand the fluctuations of the global political environment.

9 Interview with official from the Office of the Prime Minister (OPM), Mogadishu, 6 July 2026.

METHODOLOGY

This study employed a qualitative research approach to examine the multi-dimensional impacts of the 2025–2026 aid reductions on the Federal Government of Somalia (FGS). The choice of a qualitative design was necessitated by the research objectives, which required a deep exploration of institutional vulnerabilities, fiscal shocks, and the strategic decision-making processes of senior government officials and international partners. The study also draws on secondary data to assess past, current, and projected aid flows and their different modalities. This method allowed for the capture of expert insights, institutional anxieties, and emerging policy shifts that quantitative data alone could not fully articulate.

The research was primarily conducted in Mogadishu, the administrative and policy hub of Somalia. As the seat of the Federal Government, Mogadishu provided direct access to the institutions most affected by the cutting of USAID and other international funding streams, including the Ministry of Finance, the Office of the Prime Minister, and the Federal Parliament. The target population consisted of senior policy makers, technical advisors, and international development practitioners who are directly involved in Somalia's fiscal management, social service delivery, and humanitarian coordination.

Participants and institutional respondents were purposively selected based on their professional expertise and their direct role in managing the consequences of the funding withdrawal. This diverse composition ensured a "whole-of-government" perspective, capturing data from both the "Economic Pillar" (Finance, Planning, Central Bank) and the "Social/Humanitarian Pillar" (Health, Education, SoDMA). The study integrated qualitative data and official reports from the following stakeholders:

1. The Federal Government**:** Ministry of Finance (MoF), Ministry of Planning, Investment and Economic Development (MoPIED), and the Office of the Prime Minister (OPM).

2. Sectoral Ministries and Agencies**:** Ministry of Health (MoH), Ministry of Education (MoE), and the Somali Disaster Management Agency (SoDMA).

3. Oversight and Financial Institutions**:** The Finance Committee of the Federal Parliament and the Central Bank of Somalia.

4. International Partners**:** UN Agencies, and international humanitarian and development organizations.

The study involved 20 key informants, comprising 18 males and 2 females, purposively selected for their professional expertise and direct involvement in the budget and aid coordination processes. Data were collected between May and August 2026. The primary method of collection involved a series of high-level Key Informant Interviews (KIIs) and the analysis of two comprehensive volumes of qualitative stakeholder data. Semi-structured interview guides were utilized to explore specific themes such as the "snowball effect" of aid cuts, domestic revenue mobilization strategies, and the threat to state legitimacy. This approach provided the flexibility to probe deeper into institutional contingency measures, such as the expansion

of Public-Private Partnerships (PPPs) and the doubling of the domestic health budget.

The study adhered to strict ethical research principles. All institutional representatives and key informants were fully informed of the study's purpose and the intended use of the data. Given the sensitivity of fiscal gaps and security-related expenditures, informed consent was obtained for all data used, and personal identifiers were removed to preserve the anonymity of specific officials while maintaining the authority of their respective institutions. The researcher maintained a position of neutrality, ensuring that the findings reflect a balanced synthesis of both government perspectives and donor concerns.

The collected data were analyzed using thematic analysis. Transcripts, stakeholder responses, and fiscal reports were systematically coded to identify recurrent patterns and emerging strategic themes.

The study, however, faced certain limitations, primarily related to the volatility of the fiscal environment during the data collection period. Access to specific, high-level "off-budget" expenditure data was occasionally restricted due to institutional sensitivities and the lack of integrated reporting systems between humanitarian funding and the Single Treasury Account. Consequently, these resources are not fully captured within the government's budget execution and public financial reporting systems. This makes it difficult for government institutions to have a comprehensive picture of the volume, allocation and expenditure of humanitarian resources, even though the resources are being spent within Somalia. Furthermore, the rapid departure of some technical advisors during the study period limited the depth of institutional memory in certain sub-sectors. Significant scheduling and time-management challenges also emerged as the data collection phase coincided with the Hajj season, the last ten days of Eid al-Adha, and various national holidays. The concurrent administration of national exams further constrained the availability of key stakeholders, making the Key Informant Interview (KII) process considerably more time-consuming and difficult to coordinate, as many senior officials were understandably unavailable or prioritized urgent administrative and religious duties.

CONTEXT: THE FRAGILE ARCHITECTURE OF SOMALI STATE-BUILDING

Somalia's state-building trajectory has been characterized by a delicate balance between gradual institutional recovery and an overwhelming reliance on the international community. While the country has made significant strides in fiscal reform and governance, the "fragile architecture" of its public finances remains highly susceptible to external shocks. This section outlines the fiscal landscape of the Federal Government of Somalia (FGS) immediately preceding the 2025–2026 aid crisis.

The 2024 fiscal year marked a symbolic and operational turning point for the FGS. For the first time in its post-conflict history, the government celebrated reaching a one-billion-dollar budget threshold, with the total budget envelope finalized at approximately US$1.078 billion.[10] This milestone was viewed domestically as a sign of gradual recovery and a testament to the progress made during the reform period leading to the Heavily Indebted Poor Countries (HIPC) Completion Point.[11] However, while this "celebratory mood" reflected institutional growth, it masked the underlying reality that the FGS remained far from attaining true fiscal sovereignty.

Structural Dependency: The 66.7% Aid-to-Budget Ratio

Despite steady growth in domestic revenue collection, the FGS budget is defined by deep structural dependency. In the landmark 2024 budget, donor grants accounted for 66.7 percent of the total envelope (Ministry of Finance Volume I, 2026). Somalia's fiscal vulnerability reflects two distinct but interconnected challenges: its high dependence on external assistance and its exceptionally low domestic revenue mobilization (DRM). While other neighboring and EAC countries also rely on external assistance, their substantially higher domestic revenue bases provide greater capacity to absorb or gradually replace declining aid. Somalia's domestic revenue remains around 3 percent of GDP, compared with approximately 16 percent in Tanzania, 19 percent in Rwanda, and 17 percent in Kenya (International Monetary Fund [IMF], 2024, 2025a, 2025b, 2026). Thus, Somalia's challenge is not only reducing aid dependence but also building the domestic fiscal base required to finance the state more sustainably. This makes the transition toward fiscal self-reliance considerably more difficult and necessarily gradual.

The Federal Government of Somalia's 2026 fiscal framework of provides an important indication of how the country's public finances are likely to evolve as external assistance comes under increasing pressure. The central message from this is clear: *Somalia is beginning to move toward greater reliance on domestic revenue, but the pace and scale of domestic resource mobilization remain insufficient to compensate for the decline in external financing*. This challenge is compounded by the sharp contraction in humanitarian financing, much of which is delivered outside the government budget and therefore does not appear directly in the fiscal framework.

10 Interview with the Ministry of Finance, Mogadishu, 14 June 2026
11 Interview with Ministry of Finance, Mogadishu, 29 June 2026

Table 1. The 2026 Fiscal Framework: Rising Domestic Revenue and Declining Grants

Fiscal item	2024	2025	2026	2027	2028
Domestic revenue ($m)	369.3	430.0	513.7	603.7	680.8
Grants ($m)	543.4	901.6	676.2	621.9	494.6
Domestic revenue (% GDP)	3.0%	3.3%	3.6%	3.9%	4.0%
Grants (% GDP)	4.5%	6.9%	4.8%	4.0%	2.9%

Source: Federal Government of Somalia, Ministry of Finance (2026).

The fiscal framework shows two opposing trends. Domestic revenue is projected to increase consistently, rising from $369.3 million in 2024 to $513.7 million in 2026 and reaching $680.8 million by 2028. Its contribution to GDP is also expected to increase from 3.0% in 2024 to 4.0% by 2028. This indicates a continued effort to strengthen domestic resource mobilization and reduce Somalia's dependence on external financing.

Grants, however, are moving in the opposite direction. Although grants increased substantially in 2025 to $901.6 million, they are projected to decline to $676.2 million in 2026, $621.9 million in 2027, and $494.6 million in 2028. As a share of GDP, grants are projected to fall from 6.9% in 2025 to 4.8% in 2026 and just 2.9% by 2028. The medium-term fiscal framework therefore anticipates a gradual decline in the relative importance of external grants alongside a gradual increase in domestic revenue. This apparent transition toward domestic financing is positive in principle, but the magnitude of the two changes is fundamentally unequal. Between 2025 and 2026, domestic revenue is projected to increase by approximately $83.7 million, while grants decline by approximately $225.4 million. The increase in domestic revenue therefore compensates for only around one-third of the decline in grants. In other words, for every dollar of additional domestic revenue generated between 2025 and 2026, approximately $2.69 in grant financing is lost.

The implication is that Somalia cannot assume that rising domestic revenue will automatically replace declining external financing. Domestic revenue mobilization is improving, but it is improving from a very low base. At only 3.6% of GDP in 2026, domestic revenue remains insufficient to provide the government with the fiscal space required to independently finance the country's broad public expenditure and service-delivery responsibilities. The projected increase to 4.0% of GDP by 2028 represents progress, but it does not fundamentally alter the structural financing constraint compared with the EAC countries that have approximately 16 percent in Tanzania, 19 percent in Rwanda, and 17 percent in Kenya.

Further pressure in 2026 comes from the suspension of budget support from the EU, World Bank, and IMF, linked to the political situation. Unlike other forms of aid, budget support directly affects the government's fiscal space and budget execution, and its predictability can be affected by political, governance, human rights, and corruption-related conditions. Its suspension therefore adds a distinct fiscal shock on top of the broader aid cuts. It may also affect Federal Member State (FMS) transfers, given the significant role of EU and World Bank

budget support in financing these. This raises an important state-building concern about the sustainability of relying on donor financing for a core pillar of Somalia's fiscal federal system.

Furthermore, *the decline in grants represents only one component of Somalia's external financing challenge*. The government budget does not capture the full scale of external resources flowing into the country. A significant volume of humanitarian and development assistance is delivered directly by international organizations, donors, and implementing partners outside the government budget. Consequently, a decline in off-budget assistance can create substantial economic and social pressures even when it does not appear as an equivalent decline in government expenditure.

This level of dependence is a systemic feature of the Somali state; domestic revenue mobilization remains one of the lowest in the world, staying around 3 percent of the national GDP.[12] Consequently, external financing is not merely a supplement but is "indispensable" for maintaining basic state functions, including the payment of civil service salaries and the provision of essential social services.[13] The Finance Committee observes that this level of dependency is "excessive and unsustainable," as more than two-thirds of the national budget is effectively controlled by the priorities and fluctuations of foreign donors.[14]

Humanitarian financing data provides a much more dramatic picture of the external contraction. According to the UN Office for the Coordination of Humanitarian Affairs Financial Tracking Service (OCHA/FTS, 2026), total humanitarian funding reported for Somalia fell from $1.05 billion in 2024 to $539.5 million in 2025 and further to only $298.1 million in 2026.

Table 2. Reports of Humanitarian Funding to Somalia.

Year	Total Funding (US$)	Annual Changes %
2016	$684,044,757	
2017	$1,330,712,210	95%
2018	$1,202,356,156	-10%
2019	$1,020,040,729	-15%
2020	$1,098,269,541	8%
2021	$1,115,148,694	2%
2022	$2,380,701,138	113%
2023	$1,345,136,222	-43%
2024	$1,050,865,353	-22%
2025	$539,544,560	-49%
2026	$298,090,405	-45%

Source: OCHA Financial Tracking Service (FTS), *Total Funding Reported to FTS* (2026).

12 Ibid.
13 Ibid.
14 Interview with the Finance Committee of the Federal Parliament of Somalia, Mogadishu, 23 June 2026.

The scale of the contraction is substantial. Humanitarian funding declined by approximately $511 million between 2024 and 2025, equivalent to 49%, and by another $241 million between 2025 and 2026, equivalent to 45%. Overall, reported humanitarian funding declined by approximately $753 million between 2024 and 2026, meaning that the amount of humanitarian financing reported to FTS in 2026 was only about 28% of the 2024 level. This represents a major break from the financing pattern observed during the preceding decade. *Humanitarian funding had historically fluctuated in response to drought, conflict, food insecurity, and other shocks*, reaching more than $2.3 billion in 2022 during a particularly severe humanitarian crisis. The decline after 2022 initially reflected the reduction from the exceptional 2022 peak, but the subsequent contraction in 2025 and 2026 is qualitatively different because it represents a much broader decline in the resources available to humanitarian operations.

The significance of this decline goes beyond the humanitarian sector itself. *Most humanitarian interventions are delivered off budget*, meaning that the resources do not pass through the government's consolidated budget and cannot simply be treated as government revenue. However, these interventions finance activities that have direct implications for the welfare of Somali citizens and, in many cases, reduce the immediate fiscal burden on the government. When an international organization finances food assistance, nutrition services, health interventions, water and sanitation, emergency shelter, cash assistance, or education support, the government does not necessarily record the expenditure in its own budget. Nevertheless, the service is being provided to citizens. When that external financing disappears, the underlying need does not necessarily disappear with it. This creates a potentially significant *fiscal substitution effect.* Activities that were previously financed and implemented by international humanitarian actors may increasingly become expectations placed on the Somali state. The government may therefore face pressure to assume responsibilities that were previously supported through off-budget financing, despite having only limited fiscal capacity to do so.

According to OCHA/FTS (2026), the sectoral distribution of humanitarian funding further demonstrates the potential consequences of the contraction. The distribution highlights the concentration of humanitarian assistance in areas directly linked to household welfare. Food security alone accounts for 42.1% of the funding shown in the sectoral distribution, making it by far the largest sector. Multipurpose cash assistance accounts for another 7.7%, while nutrition, health, and WASH together account for a further 17.1%. This means that the aid contraction is likely to have consequences far beyond the operational budgets of humanitarian organizations. It potentially affects the ability of vulnerable households to access food, cash, healthcare, nutrition services, clean water and sanitation, shelter, and other essential services. The concentration in food security is particularly important for Somalia because humanitarian assistance has historically played a major role in cushioning households against drought, displacement, conflict, food-price shocks, and livelihood losses. A large reduction in food-security financing therefore risks transferring part of the adjustment from international donors to households unless alternative financing and social protection mechanisms are established.

According to OCHA's Financial Tracking Service (2026), in the decade spanning 2016 to 2026, Somalia's cumulative humanitarian financing envelope reached a total of $12.06 billion. The

funding landscape is characterized by a high degree of donor concentration, with the United States contributing 44.7% ($5.39 billion) and the European Union accounting for 9.8% ($1.18 billion). The United States has historically been among Somalia's largest humanitarian and development partners, with USAID playing an important role in financing and implementing programmes across humanitarian assistance, food security, health, resilience, livelihoods, and other areas. The dismantling and major contraction of USAID therefore represents an important component of the wider external financing shock facing Somalia. Its effects are particularly important because the US has been a major contributor to programmes serving vulnerable populations. At the same time, the FTS figures represent funding reported by multiple donors and humanitarian actors. Therefore, while the reduction or withdrawal of US assistance is an important driver of the current financing shock, the overall decline in the FTS data reflects the combined effect of changes across the wider donor financing system. The important point for Somalia is that *the withdrawal of a major donor occurs at the same time as broader donor fatigue, competing global crises, and declining humanitarian financing*. The country therefore cannot assume that the resources previously provided by one donor will automatically be replaced by another.

There is also a *widening mismatch between responsibility and resources.* The combination of the fiscal framework and humanitarian financing data reveals a deeper structural problem. Somalia is moving toward greater domestic financing at exactly the time that the external financing system is becoming less reliable. The government is increasing domestic revenue, but from a very low base. At the same time, budget grants are declining. Beyond the budget, humanitarian financing is declining even more dramatically. This means that the financing gap facing Somalia is potentially much larger than the decline visible in the government budget alone. The government therefore faces a difficult policy choice. It can attempt to absorb additional responsibilities by increasing expenditure, but doing so without sufficient revenue could increase fiscal pressure. It can reduce or delay services, but this would shift the cost to vulnerable households. Or it can attempt to increase domestic revenue more rapidly, although doing so requires institutional capacity, a broader tax base, improved compliance, and careful consideration of the burden placed on households and businesses. The problem is particularly acute because Somalia's domestic revenue-to-GDP ratio remains very low. The projected increase from 3.0% of GDP in 2024 to 4.0% by 2028 is encouraging, but it does not imply that Somalia is approaching fiscal self-sufficiency. Rather, it demonstrates how much further the country would need to go before domestic revenues could support a substantially larger share of public responsibilities.

The projected increase in domestic revenue from $369.3 million in 2024 to $680.8 million in 2028 also demonstrates progress, but the simultaneous decline in grants and the much sharper contraction in humanitarian financing indicate that *revenue mobilization alone cannot provide an immediate replacement for the external financing being lost.* The combined fiscal and humanitarian financing data point to the fact that *Somalia has entered an era of declining external assistance before it has developed sufficient domestic fiscal capacity to replace it.* This distinction is critical for interpreting the implications of the current aid cuts. The issue is not simply that Somalia needs to "raise more taxes." It is that the country needs to develop a broader and more sustainable domestic financing architecture while simultaneously managing a substantial external financing shock.

The current situation is a *fiscal substitution problem*. As external financing declines, the government is increasingly expected to compensate. Yet the fiscal framework indicates that domestic revenues are not growing at a rate sufficient to replace the lost external resources. If the government lacks fiscal space to respond, the final adjustment may occur through households and communities, potentially resulting in increased poverty, reduced consumption, deteriorating human capital, and greater vulnerability to future shocks. It is the beginning of a much more difficult transition in which *Somalia is being asked to assume greater responsibility for public service delivery while the external resources supporting that delivery are contracting*.

The Hybrid Financing Model: On-Budget vs. Off-Budget Realities

Somalia operates under a complex "hybrid financing model" where the government coordinates policy, but development partners largely finance and implement operational activities.[15] This is divided into two distinct streams: *On-Budget Programs:* These include direct budget support, Public Financial Management (PFM) reforms, and specific investment projects (such as the World Bank-funded *Damal Caafimaad* health project and the *Baxnaano* social safety net).[16] The World Bank provides US$125 million in Development Policy Financing (DPF) as direct budget support to the Somali government annually, with resources helping finance essential public services. These funds flow through the Treasury Single Account (TSA) and are reflected in the national budget.[17]

Off-Budget Programs: A substantial portion of assistance, particularly humanitarian response, United Nations agency operations, and Non-Governmental Organizations (NGO)-led service delivery—remains off-budget.[18] These operations are managed directly by donors and contractors using parallel systems for procurement and payroll.[19] The Ministry of Planning notes that since 2012, three sectors—governance, health, and education—have accounted for approximately 80 percent of all development assistance.[20] Because a significant volume of this aid is managed off-budget, the FGS has limited visibility and control over total public expenditure, making comprehensive national planning and resource allocation an ongoing challenge.[21]

15 Interview with the Ministry of Finance, Mogadishu, 29 June 2026
16 Ibid.
17 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
18 Interview with the Ministry of Finance, Mogadishu, 29 June 2026.
19 Interview with the Ministry of Finance, Mogadishu, 13 June 2026.
20 Interview with official from the Ministry of Planning, Investment and Economic Development, Mogadishu 29 June 2026.
21 Interview with official from the Central Bank of Somalia, Mogadishu, 14 June 2026.

CAUSES: THE GEOPOLITICAL CATALYST OF THE 2025 AID CUT

The sudden reduction in Official Development Assistance (ODA) to Somalia was not a result of a singular failure, but rather a convergence of dramatic geopolitical shifts and domestic policy changes within major donor nations. This "aid cut" was primarily triggered by a fundamental transformation in United States foreign policy, which subsequently forced a recalibration of the global humanitarian landscape.

U.S. Policy Shifts: The Dissolution of USAID and the "America First" Agenda

The primary driver of the current fiscal crisis is the January 2025 U.S. Executive Order, which halted all non-emergency international funding as part of a return to an "America First" foreign policy agenda.[22] This move resulted in the massive withdrawal and eventual dissolution of the United States Agency for International Development (USAID)—an agency that previously accounted for approximately 80 percent of Somalia's incoming aid.[23] The administration justified the freezing of long-term development contracts by citing diplomatic tensions and persistent concerns regarding the oversight of aid and the alleged diversion of resources.[24] These "stop orders" and funding freezes created an immediate financial vacuum that other international partners have been unable to fill, effectively crippling programs that millions of Somalis rely on for survival.[25]

Global Competition: Redirection of ODA to Ukraine and the Middle East

The crisis in Somalia has been exacerbated by a shift in global priorities, as traditional donors redirect limited resources toward more immediate geopolitical conflicts. European countries, in particular, have been forced to reconsider their overseas assistance priorities due to the ongoing Russia–Ukraine conflict.[26] This shift is driven by unprecedented increases in defense spending among NATO members in response to security concerns in Europe, which has reduced the pool of available development financing.[27] Furthermore, Somalia is now forced to compete for dwindling resources against other major global emergencies, including the conflicts in Gaza and Sudan.[28] As the United States—traditionally Europe's most predictable security and aid ally—has become increasingly inward-looking, European donors have restructured their funding to prioritize regional stability over distant humanitarian commitments.[29]

22 Interview with a UN Agency representative, Mogadishu, 7 June 2026.
23 Ibid.
24 Ibid.
25 Interview with representative from a humanitarian and development organization, 22 May 2026.
26 Interview with the humanitarian agencies, Mogadishu, 23 May 2026.
27 Ibid.
28 Interview with a humanitarian and development organization representative, Mogadishu, 22 May 2026.
29 Interview with a UN Agency representative, Mogadishu, 7 June 2026.

Donor Fatigue: Prolonged Crises vs. Declining Results

A secondary but significant factor is the emergence of "donor fatigue" regarding Somalia's prolonged and recurring cycles of crisis.[30] Many international stakeholders have expressed concern that decades of substantial investment have not produced sufficient long-term impact on the ground, as many communities continue to face the same vulnerabilities to drought, floods, and insecurity as they did thirty years ago.[31] There is a growing perception among donors that past humanitarian interventions may have unintentionally contributed to a cycle of aid dependency rather than strengthening local production systems and community resilience.[32] Consequently, donors are fundamentally shifting their engagement toward more restricted, prioritized, and results-oriented models, moving away from broad, sector-specific programming in favor of identifying only the most urgent, life-saving interventions.[33]

30 Interview with the humanitarian agencies, Mogadishu, 23 May 2026..
31 Ibid.
32 Ibid.
33 Interview with a UN Agency representative, Mogadishu, 7 June 2026.

SCALE: QUANTIFYING THE MACRO-FISCAL AND ECONOMIC SHOCK

The withdrawal of international support has translated into a quantifiable fiscal shock of unprecedented proportions for the Federal Government of Somalia. The suddenness of the cuts has moved the state from a period of planned expansion into a "survival stage," where the funding gaps in essential services now exceed the government's entire domestic revenue-generating capacity.

The Magnitude of Loss: Estimated 600 million Funding Gap

Macro-fiscal analysis conducted in mid-2026 indicates that overall aid inflows are projected to decline by an estimated US $400 million to US $600 million compared to 2024 levels.[34] The Ministry of Finance has modeled this crisis using two stylized shocks: the first involving a US $450 million reduction in ODA coupled with a US $150 million cut in on-budget grants, and a more severe scenario involving a US $600 million ODA cut alongside a US $200 million grant reduction.[35] To put this in perspective, the 2025 funding gaps for food security, nutrition, health, and social protection alone reach approximately US$488 million—an amount representing roughly 130 percent of the country's projected domestic revenue for the same year (Ministry of Finance Volume II, 2026). This underscores a critical reality: the Somali state cannot currently finance even a fraction of the services lost through its own resources.

Macroeconomic Contraction: Impacts on GDP Growth and National Consumption

The economic repercussions of the aid withdrawal extend far beyond government ledgers. Because international aid previously averaged roughly 22 percent of Somalia's GDP, its contraction has a direct "multiplier effect" on the broader economy (Ministry of Finance Volume II, 2026).[36] Current estimates suggest that the decline in ODA will reduce national GDP growth by 1.2 to 1.6 percentage points and slash consumption growth by up to 2.2 percentage points (Ministry of Finance Volume I, 2026). Earlier, more optimistic growth projections of 4 percent have already been revised downward by the Ministry of Finance, the IMF, and the World Bank.[37] The Finance Committee notes that the withdrawal of US$1 billion in annual USAID expenditures has severely slowed the circulation of cash, leading to widespread liquidity shortages and weakened market demand for goods and services.[38]

The Humanitarian Funding Precipice: The 74% Appeal Reduction

The most visible and immediate collapse has occurred within the humanitarian sector. Between 2022 and 2023, Somalia already experienced a US 1 billion reduction in humanitarian

34 Interview with the Ministry of Finance, Mogadishu, 13 June 2026.
35 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
36 Interview with the Ministry of Finance, Mogadishu, 29 June 2026.
37 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
38 Interview with the Finance Committee of the Federal Parliament of Somalia, Mogadishu, 23 June 2026

financing as appeal coverage fell from 89 percent to roughly 44 percent (Ministry of Finance Volume I, 2026).[39] This trend reached a breaking point in 2025, when the humanitarian appeal was slashed by a staggering 74 percent – falling from US$1.42 billion to just US$367 million. Consequently, the 2026 Humanitarian Needs and Response Plan (HNRP) reflects a nearly 40 percent decrease in funding requirements compared to the previous year.[40] This reduction is not indicative of a decrease in actual human need, but rather a forced and "severe cutback" necessitated by the lack of available resources, leaving millions of vulnerable Somalis without a safety net.[41]

39 Interview with the Ministry of Finance, Mogadishu, 29 June 2026.
40 Interview with a UN Agency representative, Mogadishu, 7 June 2026.
41 Ibid.

THEMATIC IMPACT ANALYSIS: THE "SNOWBALL EFFECT" IN SOMALIA

The reduction in aid has triggered what the Somali Disaster Management Agency (SoDMA) describes as a "snowball effect," where initial service interruptions generate secondary and tertiary socioeconomic crises.[42] As traditional Western funding, particularly the over US$200 million previously cut from health-related projects alone—is withdrawn, the consequences have cascaded across the social, institutional, and security landscapes of the country.[43]

The Social Service Collapse: Health and Education

Healthcare Crisis: The termination of USAID and UK-funded programs (such as the *Better Life* project) has led to the closure of approximately 450 health facilities nationwide.[44] This has resulted in the immediate loss of employment for roughly 3,500 health workers, including doctors, nurses, and midwives.[45] Major programs for Malaria, Tuberculosis, and HIV/AIDS, as well as childhood immunizations for Polio and Measles, have seen funding slashes of 30% annually, with further reductions anticipated.[46] Furthermore, regional conflicts have driven the cost of essential medicines up to three times their previous price, while the Ministry of Health lacks a pooled procurement mechanism to mitigate these costs.[47]

Education Sector Contraction: The education sector has seen its externally financed projects drop from 14 to just 6 active interventions.[48] A critical blow was the 60% reduction in the Global Partnership for Education (GPE) allocation, which fell from an expected US $100 million to US $42 million.[49] Consequently, support for 380 alternative education and adult learning centers is now at risk, threatening the government's long-term objective of increasing school enrollment from 30% to 75%.[50] In rural and recently liberated areas, the suspension of USAID programs has halted the construction of schools and the distribution of learning materials, leaving children vulnerable to child labor and recruitment into armed groups.[51]

Disaster Risk and Climate Resilience

SoDMA reports that the decline in international funding has significantly constrained its ability to coordinate preparedness and recovery efforts in a country facing recurrent climate shocks.[52]

42 Interview with an official from the Somali Disaster Management Agency (SoDMA), Mogadishu, 9 July 2026
43 Interview with an official from the Ministry of Health, Mogadishu, 30 June 2026.
44 Interview with an official from the Ministry of Health, Mogadishu, 25 June 2026.
45 Ibid.
46 Ibid.
47 Ibid.
48 Interview with an official from the Ministry of Education, Mogadishu, 5 July 2026.
49 Ibid.
50 Ibid.
51 Interview with an official from the Somali Disaster Management Agency (SoDMA), Mogadishu, 6 July 2026.
52 Ibid.

Loss of Anticipatory Capacity: Funding reductions have particularly hit "pre-disaster" activities, such as early warning systems and community-based risk reduction, which are the most cost-effective interventions.[53]

Logistical Paralysis: SoDMA currently lacks the contingency logistics—such as rescue boats for floods and strategically located emergency warehouses—needed to respond to large-scale disasters.[54] As aid becomes constrained, humanitarian actors are forced to prioritize only "lifesaving" interventions, effectively abandoning long-term resilience and recovery programs.[55]

Institutional and Security Risks

The aid cut poses a tangible threat to the legitimacy of the Somali state and its ability to maintain stability.

Institutional Brain Drain: As donor-funded projects end, hundreds of national and international technical advisors—who provided critical expertise in health financing, PFM, and policy implementation—are departing the country.[56] This loss of expertise risks reversing years of institutional progress and weakening relevant Ministries' capacity to sustain ongoing reforms.[57]

Legitimacy and Extremism: The Office of the Prime Minister (OPM) warns that as the state's presence in public service delivery shrinks, the resulting vacuum may be exploited by Al-Shabaab.[58] If citizens perceive the government as unable to provide basic health and education, they may turn to extremist groups for service delivery, undermining the government's efforts to liberate and stabilize territories.[59]

Economic Deterioration and the Liquidity Crunch

The withdrawal of ODA has disrupted the broader Somali economy through a decline in domestic demand.

***Household Consumption*:** Thousands of unemployed health and NGO workers have seen their incomes vanish, leading to a sharp decline in household consumption of goods and services.[60]

Fiscal Cycle Contraction: Because many donor-funded employees previously paid income taxes, their job loss has directly reduced domestic revenue mobilization.[61] The Ministry of Finance notes that the current domestic revenue is only just enough to cover the core government payroll, leaving "no room" for operations, maintenance, or capital expenditure (CAPEX), 95% of which was previously donor-funded.[62]

53 Ibid.
54 Ibid.
55 Ibid.
56 Interview with an official from the Ministry of Health, Mogadishu, 25 June 2026.
57 Interview with an official from the Ministry of Education, Mogadishu, 5 July 2026.
58 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu, 6 July 2026.
59 Ibid.
60 Interview with the Finance Committee of the Federal Parliament of Somalia, Mogadishu, 23 June 2026.
61 Ibid.
62 Interview with the Ministry of Finance, Mogadishu, 13 June 2026.

GOVERNMENT RESPONSE: NAVIGATING THE "SURVIVAL STAGE"

The Federal Government of Somalia has characterized its current fiscal position as a "survival stage," necessitating an abrupt shift from a strategy of national expansion to one of consolidation and risk mitigation.[63] In response to the sudden withdrawal of external assistance, which has primarily affected off-budget projects and externally delivered services, the FGS has implemented a series of emergency fiscal and operational measures designed to fill the resulting service-delivery and financing gaps and prevent a disruption or collapse of essential state functions.

Immediate Fiscal Mitigation: Reprioritizing the National Transformation Plan (NTP)

The Ministry of Planning and the Office of the Prime Minister (OPM) have led an "intensified reprioritization process" to align the National Transformation Plan (NTP) 2025–2029 with the new reality of resource scarcity.[64] This has involved a strategic move from "needs-based planning" to "resource-constrained planning," focusing strictly on the "priority of priorities."[65]

Four Pillars of Survival: The government has narrowed its focus to four critical areas: essential public service delivery, life-saving humanitarian interventions, protection of vulnerable populations, and productive sectors that contribute to economic resilience.[66]

Operational Scaling: To manage the funding gap, the FGS has begun implementing programs in phases and adjusting geographic coverage, with some UN agencies and ministries reducing staffing outside of Mogadishu to conserve resources.[67]

Medium-Term Expenditure Framework (MTEF) *Recalibration:* The Ministry of Finance has recalibrated the Medium-Term Expenditure Framework (MTEF), explicitly modeling "ODA-shock scenarios" to adjust consumption, import, and GDP growth projections for the 2025–2026 period.[68]

The "Survival Budget": Protecting the Wage Bill and Security Spending

Fiscal planning has shifted from expansion toward "fiscal resilience," with the Ministry of Finance imposing strict expenditure controls to protect core government functions.[69]

63 Interview with the Finance Committee of the Federal Parliament of Somalia, Mogadishu, 23 June 2026.
64 Interview with an official from the Ministry of Planning, Investment and Economic Development, Mogadishu, 4 July 2026.
65 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu, 6 July 2026.
66 Interview with an official from the Ministry of Planning, Investment and Economic Development, Mogadishu, 4 July 2026.
67 Ibid.
68 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
69 Interview with the Ministry of Finance, Mogadishu, 29 June 2026.

Payroll Protection: A primary objective has been the protection of the civil service wage bill. Data for 2025 shows that while social benefits saw a rate of 75 percent under-execution and capital assets saw a rate of 61 percent under-execution, compensation for employees was almost fully protected, with only 1.8 percent under-execution.[70] The Ministry has kept the 2026 wage bill unchanged from 2025 to maintain institutional stability.[71]

Security Priority: Security remains the government's foremost priority in budget allocation, as it is viewed as the prerequisite for revenue collection and development.[72] The government is attempting to balance "hard security" (military operations) with "human security" (stabilization of recovered areas) to ensure that territorial gains are not lost due to a lack of follow-up services.[73]

Expenditure Tightening: To bridge the gap, the MoF has shifted to a "tighter expenditure policy," prioritizing payroll and core transfers while significantly lowering the execution of goods, services, and non-financial assets.[74]

Sectoral Pivots: Domestic Funding Increases and Service Reforms

Faced with the withdrawal of project-based aid, individual ministries have undertaken drastic measures to internalize service costs.

Health Sector Reforms: With 95 percent of health financing externally funded, the FGS has limited fiscal capacity to absorb the resulting financing gap. In response to the resulting service-delivery pressures, the Ministry of Health has initiated pilot Public-Private Partnerships (PPPs) in Abudwaaq and Kismayo, through which local authorities and private providers have assumed responsibility for operating five public health facilities, helping prevent their closure. While this remains small relative to the need, it signals a shift in government awareness and responsibility.[75]

Education Sector Interventions: To mitigate the loss of donor-funded education projects, the Federal Government recruited approximately 6,000 government-paid teachers.[76] These teachers have been deployed specifically to schools that lacked the financial capacity to pay staff following the aid cuts, helping to fill a critical service delivery gap.[77] The recruitment of approximately 6,000 government-paid teachers prior to the 2025–2026 aid cuts reflects a deliberate FGS policy to progressively assume greater responsibility for financing and sustaining essential education services. This policy demonstrates that the government had begun preparing for a more self-reliant and sustainable model of public service delivery before the subsequent decline in external assistance. The existing government-funded teaching capacity can also help mitigate the impact of aid reductions by supporting education

70 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
71 Interview with the Ministry of Finance, Mogadishu 13 June 2026.
72 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu, 16 June 2026.
73 Ibid.
74 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
75 Interview with an official from the Ministry of Health, Mogadishu, 25 June 2026.
76 Interview with an official from the Ministry of Education, 5 July 2026.
77 Ibid.

provision through private schools serving poor and vulnerable households, reducing the need for the government to establish and fully finance additional public schools.[78]

Alternative Social Safety Nets: The FGS has established a national insurance scheme and is working on pooling funding mechanisms to replace the Baxnaano safety net, which was previously entirely dependent on external grants (Ministry of Finance Volume II, 2026).

Emergency Financing: SoDMA has successfully advocated for the establishment of the National Disaster Management Contingency Fund, approved by Parliament, to provide a rules-based domestic reserve for emergency response that does not rely on unpredictable foreign appeals.[79]

POLICY OPTIONS: STRATEGIES FOR DIVERSIFICATION AND RESILIENCE

The Federal Government of Somalia (FGS) has concluded that its current fiscal model, where Official Development Assistance (ODA) averages 22 percent of GDP while domestic revenue remains below 3 percent, is no longer sustainable (Ministry of Finance Volume I, 2026).[80] To bridge the financing gap created by the 2025–2026 aid withdrawal, the government is exploring a multi-pronged strategy centered on expanding the tax base, diversifying international alliances, and leveraging innovative financing mechanisms.

Domestic Revenue Mobilization (DRM): SOMCAS and Revenue Expansion

Accelerating Domestic Revenue Mobilization (DRM) is the government's primary tool for reducing long-term aid dependency. The FGS should strengthen domestic revenue collection to reduce aid dependency and improve fiscal resilience. After collecting US$404.3 million against its US$430 million target in 2025, equivalent to 94% of the target and a 9.5% increase over 2024. The government projects revenue to reach US$513.7 million in 2026 and US$603.7 million in 2027. Achieving these targets requires modernizing tax and customs administration, expanding digital tax systems, broadening the tax base, reducing unjustified exemptions, and strengthening compliance to sustain essential public services amid declining external grants.[81]

Digitalization and Legislation: The cornerstone of this effort is the implementation of the new Income Tax Law and the deployment of digital tax systems, such as the Somalia Customs Administration System (SOMCAS), to improve compliance and reduce leakages.[82]

Non-Traditional Taxation: To generate immediate liquidity, the government has introduced "sin taxes" on tobacco, khat, and sugary drinks.[83] Additionally, the Ministry is working to harmonize customs and integrate Public Financial Management (PFM) systems across Federal

78 Ibid
79 Interview with an official from the Somali Disaster Management Agency (SoDMA), Mogadishu, 9 July 2026.
80 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
81 Interview with the Ministry of Finance, Mogadishu, 13 June 2026.
82 Ibid.
83 Ibid.

Member States (FMS) to consolidate reporting and strengthen budget credibility.[84]

Natural Resource Leveraging: The FGS is moving toward the commercialization of national assets, specifically through oil exploration agreements, such as those signed with Turkey, to create new long-term revenue streams from the extractive sector.[85]

Diversifying Partnerships: Strengthening Ties Beyond Traditional Donors

Recognizing the risks associated with excessive reliance on a single donor (specifically the U.S.), the FGS is actively engaging non-Western and emerging partners to broaden its support base.[86]

Emerging Bilateral Partners: The government has intensified cooperation with Turkey, Saudi Arabia, and Qatar, particularly in the areas of security cooperation, infrastructure development, and maritime resources.[87]

Targeted Humanitarian Aid: An example of this shift is the Ministry of Health's partnership with Qatar Charity, which resulted in a US$1.46 million initiative to implement 48 health projects across Somalia, focusing on specialized medical treatments and maternal health.[88]

Regional and Global Integration: Somalia is also seeking to leverage its membership in the East African Community (EAC) and strengthen ties with China and African development institutions to support trade, investment, and public sector capacity.[89]

Innovative Financing: Public Private Partnerships and the " Humanitarian-Development-Peace Nexus" Approach

Traditional project-based aid is being replaced by more integrated and sustainable financing models that emphasize local ownership.

Public-Private Partnerships (PPPs): In the health and education sectors, the government is pursuing a co-financing model where local authorities and private providers share the costs of service delivery.[90] Pilot programs in the Banadir region aim to use locally generated revenues to finance the operation of public health facilities, reducing the need for external grants.[91]

The Humanitarian-Development-Peace "(HDP) Nexus" Strategy: Donors and the FGS are increasingly adopting the "Humanitarian-Development-Peace (HDP) Nexus" approach.[92] This framework moves away from the binary choice between emergency relief and long-term development by integrating all three streams into a single financing framework, prioritizing

84 Interview with the Ministry of Finance, Mogadishu, 14 June 2026.
85 Interview with the Ministry of Finance, Mogadishu 13 June 2026.
86 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu, 16 June 2026.
87 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu 4 July 2026.
88 Interview with an official from the Ministry of Health, Mogadishu, 3 July 2026.
89 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu, 16 June 2026.
90 Interview with an official from the Ministry of Health, Mogadishu, 25 June 2026.
91 Ibid.
92 Interview with a representative from a UN Agency, Mogadishu, 7 June 2026.

flexible, multi-purpose cash assistance and localized implementation.[93]

Islamic and Diaspora Financing: The Ministry of Education is pursuing the establishment of an "Education Development Fund," which intends to mobilize resources from the Somali diaspora and traditional Islamic social financing mechanisms, such as Zakat and Awqaf, to finance school infrastructure and teacher salaries.[94]

93 Ibid.
94 Interview with an official from the Ministry of Education, Mogadishu, 5 July 2026.

PUBLIC FINANCIAL MANAGEMENT IMPLICATIONS

The 2025–2026 aid reductions have exposed structural weaknesses in Somalia's public financial management (PFM) system that extend beyond the immediate loss of external financing. The crisis demonstrates that Somalia's fiscal vulnerability is not solely the result of declining donor support, but also of a financing model that remains highly dependent on unpredictable external grants to fund essential government functions. Consequently, the aid shock should be understood as a public finance challenge requiring structural PFM reforms.

Aid Dependency as a Fiscal Risk

The findings of this study indicate that Somalia's heavy dependence on Official Development Assistance (ODA) has evolved into a significant fiscal risk. When external financing declined, the government faced immediate pressures on budget execution, service delivery, and institutional operations because a substantial proportion of critical expenditures had previously relied on donor financing. This experience demonstrates that aid dependency creates fiscal exposure comparable to other macro-fiscal risks such as revenue shocks, commodity price fluctuations, or climate-related disasters. Going forward, external financing uncertainty should be systematically incorporated into fiscal risk assessments, annual budget preparation, and the Medium-Term Fiscal Framework (MTFF). This implies thinking more thoroughly about what should be funded by the state from its own-source revenue and what can reasonably be funded by donors. Regular fiscal stress testing and contingency planning would enable government institutions to anticipate financing disruptions and prioritize expenditure adjustments before service delivery is compromised.

Budget Credibility and Expenditure Prioritization

The aid shock has also highlighted the importance of budget credibility and realistic expenditure planning. The abrupt withdrawal of external resources forced government institutions to reprioritize spending toward salaries, security, and essential public services while postponing or scaling back planned investments and development programmes. Although these emergency adjustments were necessary, they exposed the vulnerability of budgets that depend heavily on uncertain external financing. The key challenge is therefore not simply to align expenditure commitments with available resources, but to better manage the volatility and unpredictability associated with different forms of external financing, including off-budget assistance, on-budget projects, and budget support. This requires stronger forecasting of aid flows, clearer visibility of donor commitments, and a more diversified financing portfolio to reduce the fiscal risks associated with sudden reductions or suspensions in any particular type of aid. A more credible budget process will enhance fiscal discipline while improving the Government's ability to respond to future financing shocks.

Cash Management and Treasury Resilience

The reduction in external assistance affected the FGS through two distinct but related channels. First, the decline in aid inflows weakened economic activity and, in turn, placed pressure on domestic tax and customs revenues, further constraining fiscal space. These effects were compounded by other external shocks, including the economic consequences of the war in Ukraine and the conflict between the US/Israel and Iran. Second, the suspension or reduction of budget support created direct financing and liquidity pressures for the government, limiting its ability to meet planned expenditures without disrupting essential services. These developments underscore the importance of strengthening cash forecasting, commitment controls, expenditure prioritization, and contingency financing mechanisms to help the government manage future financing disruptions while protecting critical public services.

Domestic Revenue Mobilization as a Strategic Imperative

The findings reinforce that domestic revenue mobilization is no longer solely a development objective but a strategic requirement for fiscal sustainability and national resilience. Although Somalia has made notable progress in increasing domestic revenue collection, current revenue levels remain insufficient to finance core government functions without substantial external support. Continued reforms should therefore prioritize expansion of the domestic tax base, modernization of revenue administration, improved taxpayer compliance, digitalization of tax collection systems, and strengthened customs administration. Sustained improvements in domestic revenue will gradually reduce fiscal vulnerability while increasing national ownership of development priorities. This requires a more fundamental shift in the Somali state—from being primarily accountable to external actors and donors, such as the US and Türkiye, toward being more directly accountable to its own citizens. In practical terms, government priorities and public spending should increasingly respond to citizens' needs and expectations rather than external financing priorities

Aid Effectiveness and Government Ownership

The crisis has renewed attention to the limitations of fragmented aid delivery mechanisms. While off-budget financing has played an important role in supporting humanitarian and development interventions, parallel implementation systems have often limited government oversight, reduced budget comprehensiveness, and constrained institutional capacity development. Future external assistance should increasingly strengthen national systems rather than substitute for them. A gradual transition toward greater use of government financial management systems, sector-wide financing arrangements, and nationally coordinated planning would improve aid effectiveness while reinforcing domestic institutions. Such a transition should be implemented progressively, considering fiduciary safeguards and institutional readiness.

Fiscal Federalism and Coordinated Public Financial Management

The aid shock also highlights the importance of strengthening fiscal coordination between the Federal Government and Federal Member States (FMS). As external financing declines, effective intergovernmental coordination will become increasingly important for enhancing resource mobilization, maintaining equitable service delivery, improving resource allocation, and avoiding duplication of expenditure. Accelerating implementation of harmonized PFM systems, common fiscal reporting standards, integrated financial information systems, and transparent intergovernmental fiscal transfer mechanisms would improve national fiscal coherence while strengthening accountability across all levels of government.

Building Long-Term Fiscal Resilience

Ultimately, the lessons from the 2025–2026 aid crisis extend beyond immediate financing needs. Fiscal resilience should become a central objective of Somalia's public financial management reforms. Building resilience requires institutions capable of anticipating fiscal risks, mobilizing domestic resources, allocating domestic resources in the most effective way to maximize service delivery while taking into account the limited domestic resources and avoiding aid dependency, managing public expenditures efficiently, and maintaining essential government functions during external shocks. The crisis therefore presents an opportunity to shift Somalia's development financing model from one characterized by reactive dependence on unpredictable external assistance to one founded on stronger domestic institutions, sound public financial management, diversified financing sources, and nationally-led development priorities. Strengthening these foundations will not eliminate the need for international partnerships, but it will significantly improve the Government's capacity to manage future shocks while preserving fiscal sustainability and state legitimacy.

The findings of this study demonstrate that the 2025–2026 aid reductions should not be interpreted solely as a decline in humanitarian financing or donor support. Rather, they reveal a structural weakness in Somalia's public finance system that has developed through prolonged dependence on external assistance to finance core government functions. The current crisis therefore represents a critical turning point in Somalia's state-building process, requiring a shift from managing periodic aid shocks toward building a fiscally resilient public finance system capable of sustaining essential government functions through predictable domestic resources and stronger national institutions. Given the scale and nature of the current aid withdrawal, a substantial recovery in external assistance appears unlikely in the short to medium term. The FGS should therefore not assume that aid flows will return to previous levels but instead plan for a prolonged period of reduced and more uncertain external financing. This reinforces the need to accelerate domestic revenue mobilization, strengthen public financial management, and pursue a gradual transition toward greater fiscal self-reliance. The evidence presented throughout this study consistently shows that while the immediate impacts are sectoral, affecting health, education, humanitarian assistance, and institutional operations, the underlying challenge is fundamentally one of fiscal sustainability and public financial management. Consequently, the policy response must extend beyond replacing lost donor resources and instead focus on strengthening the institutions, systems, and financing mechanisms that underpin long-term state resilience.

The convergence of the 2025–2026 aid withdrawal and Somalia's ongoing state-building efforts represents a seminal moment in the country's post-conflict history. The findings of this study reveal a profound tension: while the Federal Government of Somalia (FGS) successfully achieved historic fiscal milestones in 2024, the "fragile architecture" of its success was built upon a foundation of external assistance that was neither permanent nor predictable. The current crisis forces a critical examination of the sustainability of the Somali state-building model, the risks to its institutional legitimacy, and the strategic necessity of a transition toward fiscal sovereignty.

A transition toward fiscal sovereignty would mean gradually reducing the FGS's dependence on unpredictable external assistance by strengthening domestic revenue mobilization and public financial management. However, given Somalia's limited revenue base and substantial service-delivery needs, this cannot be achieved through an abrupt withdrawal of aid. It requires a gradual transition in which aid serves as a bridge toward greater domestic fiscal capacity, supported by stronger institutions, economic growth, improved tax collection, disciplined expenditure prioritization, and greater private-sector participation in public service delivery. Ultimately, fiscal sovereignty must enable the government to finance essential public services more predictably, while strategic partnerships with the private sector can help expand service delivery and reduce pressure on limited public resources, thereby strengthening the social contract between the state and its citizens.

A critical theme emerging from the data is the existential threat to state legitimacy. The closure of 450 health facilities and the loss of 3,500 healthcare jobs are not merely fiscal setbacks; they are direct blows to the social contract.[95] In fragile contexts like Somalia, institutional legitimacy is derived from the government's ability to meet the basic needs of its citizens. The Office of the Prime Minister (OPM) correctly warns that the contraction of public services creates a vacuum that extremist groups like Al-Shabaab are eager to fill. If the state is perceived as unable to provide "human security"—including maternal health and basic education—the hard-won gains of "hard security" (military liberation) become difficult to sustain. The trade-off between security spending and social service delivery remains the most difficult challenge for the FGS in the current fiscal environment.[96] However, the government has a central responsibility to ensure the continued provision of essential social services, while recognizing the constraints imposed by its limited domestic revenue base.

The current crisis has shed light on the long-standing inefficiencies of the "hybrid financing model." For years, a substantial volume of humanitarian and development aid has operated off-budget, managed by UN agencies and NGOs through parallel systems.[97] While this model allowed for rapid implementation during periods of total state collapse, it has ultimately undermined long-term resilience by bypassing government oversight and failing to build national capacity.[98] The Ministry of Finance's lesson from the 2025 withdrawal is clear: the reliance on off-budget systems undermines resilience, and the transition toward direct budget

95 Interview with an official from the Ministry of Health, Mogadishu, 25 June 2026.
96 Interview with an official from the Office of the Prime Minister (OPM) , Mogadishu, 6 July 2026.
97 Interview with an official from the Central Bank of Somalia, Mogadishu, 14 June 2026.
98 Interview with the Ministry of Finance, Mogadishu, 13 June 2026

support is no longer a policy preference but a survival necessity.[99] However, budget support also carries significant sustainability and volatility risks, as it can be suspended during election periods as a political tool wielded by donors. Therefore, maintaining a diversified aid portfolio, including off-budget and project-based financing—is essential to mitigate the risks associated with both aid suspension and overall declines in external assistance.

The "aid cliff" has served as a catalyst for a radical realignment of Somalia's international partnerships. The redirection of Western ODA toward conflicts in Ukraine and the Middle East has signaled to the FGS that it can no longer assume a "priority status" in Western foreign policy.[100] The government's move toward non-traditional partners—including Turkey, Qatar, and Saudi Arabia—and the leveraging of natural resources represents a strategic shift toward a more diversified and sovereign financing model.[101] However, as the OPM notes, diversification must be guided by national interest and transparency to ensure that the country does not simply "replace one dependency with another."[102]

Ultimately, the 2025–2026 crisis underscores the urgency of the "Humanitarian-Development-Peace (HDP) Nexus" approach. The traditional binary choice between emergency relief and long-term development is a luxury Somalia can no longer afford.[103] By integrating these streams into a single, nationally-led framework, the FGS can begin to address the root causes of its vulnerability, such as climate shocks and recurring poverty—while gradually reducing its reliance on unpredictable external assistance. The path toward fiscal sovereignty will be slow and requires difficult trade-offs, but as the Ministry of Finance concludes, the current contraction should be viewed not only as a shock but as a historic opportunity to place Somalia on a self-reliant development path.[104] Progress on the peace and security front is also critical to this fiscal transition. Improved security could reduce the share of public spending devoted to the security sector, creating fiscal space to allocate more resources to development and service delivery, while a more stable environment could also support stronger domestic revenue mobilization.

99 Ibid.
100 Interview with the humanitarian agencies, Mogadishu, 23 May 2023.
101 Interview with an official from the Office of the Prime Minister (OPM), Mogadishu, 16 June 2026.
102 Ibid.
103 Interview with a representative from a UN Agency, Mogadishu, 7 June 2026.
104 Interview with the Ministry of Finance, Mogadishu, 29 June 2026.

CONCLUSION

The 2025–2026 aid crisis represents the most significant fiscal and institutional challenge to the Federal Government of Somalia since the beginning of its post-conflict recovery. The abrupt withdrawal of USAID and the redirection of global Official Development Assistance (ODA) toward competing geopolitical priorities have exposed the inherent vulnerability of a state-building model that relies on foreign grants for 66.7 percent of its national budget. What was initially perceived as a period of fiscal expansion has rapidly devolved into a "survival stage," where the state is forced to make impossible trade-offs between military security and the basic human survival of its citizens.

The scale of this "aid cliff" is staggering. With an estimated US$1 billion reduction in humanitarian financing and a nearly 74 percent cut to emergency appeals, the social safety nets of the Somali people have been effectively dismantled. The closure of 450 health facilities and the suspension of critical education programs do not merely represent statistical losses; they precipitate a "snowball effect" of socioeconomic deterioration that threatens to reverse a decade of developmental gains. Furthermore, the resulting service delivery vacuum creates a tangible risk to state legitimacy, providing a fertile ground for extremist exploitation in recently liberated territories.

However, as the Ministry of Finance has observed, this crisis also serves as a historic "opportunity to accelerate reforms" that place Somalia on a more self-reliant path. The government's emergency response, including the doubling of the domestic health budget, the recruitment of 6,000 government-paid teachers, and the establishment of the National Disaster Management Contingency Fund—signals a fundamental shift in national consciousness toward fiscal responsibility. The strategic move toward diversifying international partnerships and intensifying Domestic Revenue Mobilization (DRM) through digital systems and natural resource leveraging offers a viable, albeit difficult, roadmap to fiscal sovereignty. The future of the Somali state depends on its ability to transition from a reactive recipient of unpredictable humanitarian aid to a resilient, nationally led development model. This transition requires the full implementation of the "HDP Nexus" approach and a sustained commitment to building domestic institutions that are financed by Somali resources and governed by Somali priorities. While the path ahead is fraught with fiscal strain, the current crisis has made one reality undeniable: for Somalia to survive and thrive in an increasingly unpredictable global environment, it must finalize the architecture of its own sovereignty and move beyond the era of perpetual aid dependency.

Finally, the defining lesson of the 2025–2026 aid crisis is that Somalia's future cannot be secured through replacing one source of external financing with another. Sustainable state-building depends on strengthening the country's own public finance institutions, expanding domestic revenue, improving fiscal governance, and ensuring that national priorities are increasingly financed through resilient and accountable country systems. The current aid shock should therefore be recognized not simply as a financing crisis, but as a strategic opportunity to redesign Somalia's public finance architecture around fiscal resilience, national ownership, and long-term institutional sustainability. The decisions taken during this period

will determine whether Somalia remains vulnerable to recurring external shocks or emerges with a stronger and more self-reliant foundation for development.

This study is significant for several reasons. First, it provides timely evidence on the fiscal, institutional, and public financial management (PFM) implications of the 2025–2026 reductions in Official Development Assistance (ODA) to Somalia. Unlike previous analyses that have primarily focused on humanitarian or sectoral impacts, this study examines how aid reductions affect fiscal sustainability, budget management, public service delivery, and the government's long-term state-building agenda.

Second, the study offers practical, evidence-based policy recommendations for the Federal Government of Somalia, Parliament, and development partners to strengthen fiscal resilience and reduce long-term aid dependency. By drawing on key informant interviews with key government institutions, development partners, and official fiscal data, the findings provide a foundation for improving public financial management, domestic revenue mobilization, fiscal risk management, and aid effectiveness.

Finally, the study contributes to Somalia's broader development policy by reframing the current aid shock as a structural public finance challenge rather than merely a temporary financing crisis. In doing so, it provides a policy roadmap for strengthening country systems, promoting nationally led development, and building a more resilient and sustainable public finance architecture capable of supporting Somalia's long-term development objectives.

POLICY RECOMMENDATIONS: A ROADMAP FOR FISCAL RESILIENCE AND REDUCED AID DEPENDENCY

The 2025–2026 aid shock has demonstrated that Somalia's current development financing model is highly vulnerable to external geopolitical and fiscal shocks. While emergency responses have prevented an immediate collapse of government functions, they cannot substitute for long-term fiscal resilience. The findings of this study suggest that future reforms should focus on protecting essential public services, strengthening domestic public financial management, reducing fiscal risks associated with aid dependency, and gradually transitioning toward a nationally led financing model. The following recommendations are prioritized according to urgency and implementation horizon.

Priority One: Stabilize Public Finances and Protect Essential Government Functions

The immediate objective should be to maintain fiscal stability while preserving the government's legitimacy through uninterrupted delivery of essential public services.

1a. Protect a Minimum Survival Service Package

The Federal Government should formally establish a *Minimum Survival Service Package* that identifies critical services that must continue during periods of fiscal stress regardless of funding constraints. This package should prioritize primary healthcare, maternal and child health services, essential education, emergency nutrition, water supply, and security operations. Rather than pursuing further expansion of service coverage during periods of fiscal stress, limited resources should be prioritized to maintain a minimum level of essential service delivery across all districts, with additional support directed to areas facing the greatest needs and service-delivery gaps.

1b. Introduce Fiscal Shock Response Mechanisms

The Ministry of Finance should institutionalize fiscal contingency planning by incorporating donor financing risk scenarios into annual budgeting and the Medium-Term Fiscal Framework (MTFF). This should include regular fiscal stress testing, expenditure prioritization frameworks, and strengthened cash forecasting to enable rapid adjustment when external financing declines. In parallel, the existing Fiscal Buffer Fund and National Disaster Management Contingency Fund should be operationalized under clear eligibility and governance rules to provide temporary financing during external funding disruptions.

1c. Protect the Frontline Public Sector Workforce

To prevent institutional capacity erosion, priority should be given to safeguarding salaries for frontline workers, including teachers, healthcare personnel, and essential technical staff. Where donor-funded positions are phased out, the government should implement

a structured transition programme to absorb high-priority national professionals into government institutions based on fiscal affordability and strategic importance.

Priority Two: Strengthen Public Financial Management and Domestic Resource Mobilization

2a. Accelerate Domestic Revenue Mobilization

The Ministry of Finance should accelerate implementation of the Income Tax Law, expand digital tax administration systems such as SOMCAS, strengthen customs modernization, and broaden the domestic tax base while improving taxpayer compliance. Revenue reforms should prioritize efficiency, transparency, and taxpayer confidence rather than simply increasing tax rates. Attention should be given to expanding compliance among large taxpayers and improving revenue administration across Federal Member States.

2b. Strengthen Budget Credibility and Fiscal Discipline

The aid shock has highlighted weaknesses in expenditure planning and budget execution. The Ministry of Finance should strengthen budget credibility by improving commitment controls, expenditure prioritization, cash management, and budget execution monitoring. Greater transparency over both on-budget and externally financed expenditures should also be pursued to improve fiscal planning and reduce fragmentation of public spending.

2c. Accelerate Fiscal Federalism Reforms

The Federal Government and Federal Member States should accelerate harmonization of Public Financial Management systems, revenue administration, fiscal reporting, and intergovernmental fiscal transfers. A unified national fiscal information system would improve resource allocation, reduce duplication, and strengthen national fiscal oversight.

Priority Three: Improve Aid Effectiveness and Financing Coordination

3a. Transition Towards Country Systems

Development partners and the Federal Government should gradually increase the proportion of assistance delivered through national public financial management systems where fiduciary conditions permit. Rather than an immediate shift to full budget support, a phased approach should expand the use of Treasury-managed financing, sector-wide pooled funds, and jointly monitored co-financing arrangements. This approach would improve government ownership, strengthen national institutions, and reduce parallel implementation systems.

3b. Improve Aid Coordination and Fiscal Risk Management

The Ministry of Planning and Ministry of Finance should jointly establish a comprehensive Aid Risk and Financing Framework that regularly assesses donor concentration risks, financing predictability, sectoral exposure, and contingent fiscal liabilities arising from

externally financed programmes. Annual aid dependency assessments should become part of the national budget preparation process.

Priority Four: Diversify Sustainable Sources of Development Finance

4a. Diversify Financing Partnerships.

The Federal Government should continue expanding partnerships with regional and emerging development partners while ensuring that new financing arrangements remain aligned with national development priorities and debt sustainability objectives. Diversification should include infrastructure financing, climate finance, Islamic finance, diaspora investment, concessional lending, and blended finance mechanisms. However, diversification should complement, not replace—sound domestic resource mobilization.

4b. Scale Public–Private Partnerships

Given increasing fiscal constraints, Public–Private Partnerships (PPPs) should become an important financing mechanism for selected infrastructure and service delivery sectors. The government should finalize a comprehensive PPP policy framework, strengthen institutional capacity for project appraisal, and ensure that future PPPs are transparently managed to avoid creating hidden fiscal liabilities or conflicts of interest.

4c. Strengthen Natural Resource Governance

Potential future revenues from oil, gas, fisheries, and other natural resources should be managed under transparent legal and fiscal frameworks before significant revenues begin to materialize. The government should prioritize completion of the legislative framework for extractive industries and establish a rules-based Sovereign Resilience Fund to support macro-fiscal stability and intergenerational equity. Natural resource revenues should primarily finance productive investment rather than recurrent expenditure.

Priority Five: Build Long-Term Institutional Resilience

5a. Institutionalize Crisis-Responsive Public Financial Management

The Federal Government should integrate fiscal risk management, climate resilience, humanitarian response, and development planning into a unified national resilience framework based on the Humanitarian–Development–Peace (HDP) Nexus. This framework should strengthen coordination between the Ministry of Finance, Ministry of Planning, SoDMA, sector ministries, and development partners while ensuring that emergency response contributes to long-term institutional development rather than creating parallel systems.

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Somali Public Agenda (SPA) is a non-profit public policy and administration think-and-action tank based in Mogadishu, with the mission to advance responsive, evidence-based, and inclusive governance and public services in Somalia through research and analysis (through SPA Research), dialogue (through SPA Dialogue & SPA Podcasts), co-design of evidence-based policies and services (through SPA Policy Lab), and capacity development (through SPA Learning Lab).

SPA has established a unique reputation as a credible, neutral, and influential think-and-action tank across Somalia; has networks spanning the political landscape, including government institutions, opposition actors, and civic stakeholders; and has a strong track record of influencing policy at the highest level, as evidenced by our Success Stories and Testimonials pages on our website.

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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