



REPUBLIC OF TURKEY
OSTİM TECHNICAL UNIVERSITY
FACULTY of ECONOMICS and ADMINISTRATIVE SCIENCES

**THE ROLE OF FOREIGN AID IN SHAPING SOMALI'S ECONOMIC
LANDSCAPE**

GRADUATION PROJECT

HAMDİ ALİ MOHAMED

200102901

ECONOMICS

ANKARA 2025

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ACCEPTANCE AND APPROVAL PAGE

The faculty jury members examined and approved this thesis as a graduation project.

Signature

Name of Jury Member

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Title/Position

Supervisor

ABSTRACT

THE ROLE OF FOREIGN AID IN SHAPING SOMALIA'S ECONOMIC LANDSCAPE

The research examines the post-civil war period to study various ways foreign aid shapes Somali economic development. The research examines foreign aid effectiveness in supporting infrastructure development and institutional capacity-building and economic stabilization through an analysis of bilateral and multilateral aid sources.

The research evaluates both short-term economic benefits and long-term effects of aid dependency through an analysis of secondary data and policy papers and academic literature. Foreign assistance has improved Somalia's poor economy, but research shows that ongoing problems arise from poor management and donor-imposed priorities and insufficient local control.

The research indicates that aid plans need to align with national priorities and strengthen accountability systems. The research contributes to the existing debate about aid effectiveness by providing policy recommendations for sustaining economic development in unstable countries like Somalia.

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CHAPTER ONE: INTRODUCTION

1.1 Country Background

In 1960 Somalia gained independence to become an independent nation which enjoyed a brief democratic period marking one of the first peaceful handovers in Africa. The military under Mohamed Siyad Barre seized power through a coup in 1969 which marked the end of democratic governance. The 21-year rule of his administration started as an authoritarian system which intensified into complete authoritarianism during the last decade. The civil war lasted for years after Barre lost power in 1991 when opposition forces led by clans took control. The factions failed to agree on power sharing leading to extensive violence along with forced displacement of people and the destruction of national institutions.

The nation experienced a period of reconstruction after the end of the civil war in 1991. More than fifteen peace negotiations took place without achieving complete resolution of the conflict. The conflict worsened because of foreign military operations launched by the United States and the United Nations and later by Ethiopia (which received support from the United States during the war on terror). The nation has no effective central authority while local control maintains governance over many regions despite the permanent government obtaining international recognition in 2012.

The complicated situation of Somalia stems from historical roots that extend far back in time. The ancient Egyptians identified Somalia as the Land of Punt because of its extensive tradenetworks. Local sultanates established formalized governments to govern coastal cities such as Mogadishu and Zeila which prospered from trading activities. The Somali people constitute one of the most homogeneous ethnic groups in sub-Saharan Africa because they share a unified ancestry together with a single language and religious tradition. The society has traditionally operated through clan divisions while resolving conflicts through the traditional legal system of xeer.

Colonial interference disrupted the centuries-old administrative structures through the establishment of clan-based divisions for power distribution. The following Somali regimes adopted this practice which deepened social divisions and maintained national instability for many years. This historical background provides a clearer perspective of Somalia's present state and the challenges of achieving national unity.

1.2 Background of the study

Somalia was seen as one of Africa's rare countries that been having same language and culture. Somalia has experienced unending conflicts and violence for decades and this has resulted in the country's social economic and political stability, insecurity in Somalia has been as a result of a grave matter to security dynamic influenced by both external and internal actors.

Following the First World War, the practice of providing humanitarian aid to developing countries began. In the early 1950s, the U.S.A and the Soviet Union began to aid their defense capabilities of partner nations and to promote their political views. Originally the war-torn countries provided assistance in order to restore the economies.

Somalia received heavy military deployment and economic support during the cold war. In the 1980s, it was one of the main aid beneficiaries in Sub-Saharan Africa. Following the fall of Siad Barre in 1991, aid levels have slowly been cut by only a few on the ground aid organizations by. After 2001, concerns that Somalia might be a vector of terrorist activity revived foreign interests. Over the past 15 years, Somalia has seen a large increase in support and has increased six times since the beginning of the 2000s (Overseas Development Institute, 2017).

Help flows covering more than 20% of GDP are now ten times the central government's own income – less than 2% of GDP. Spending also plays a significant part or role in the economy with over 20% of GDP. Humanitarian aid has increased significantly since the turn of the century and increased in 2011 drought and famine response. The intense surge suggests that humanitarian aid will rise again in 2017.

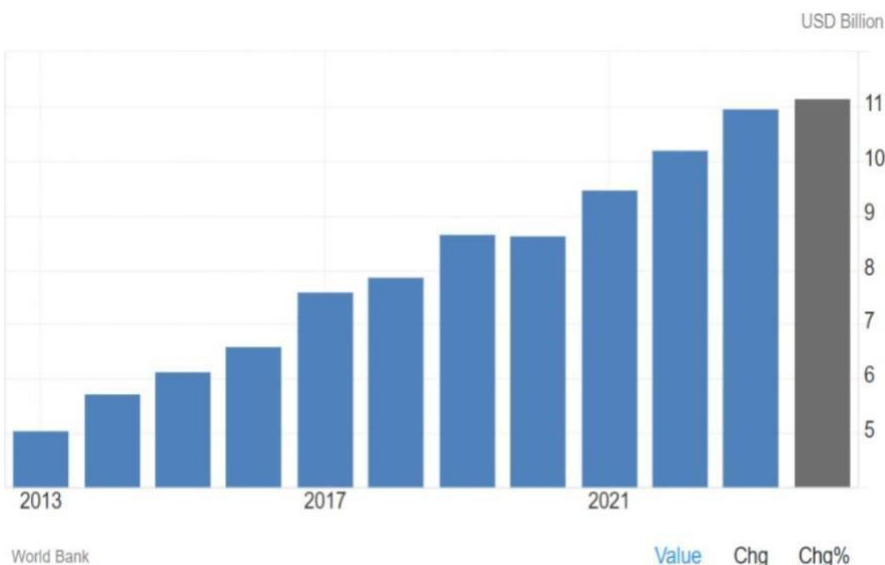


Figure 1. Somalia GDP 2013–2024 – source: World Bank, 2023

Somalia received vital but complicated international aid support throughout three decades. The pre-1991 era saw development funds used for infrastructure, but these funds mostly served political purposes rather than the genuine requirements of the community. The collapse of the government led to emergency aid becoming the vital source for Somali survival although it did not establish durable solutions.

Research studies reveal that humanitarian assistance saves lives while creating fresh problems in the process of saving them. Somalia faces the risk of becoming dependent on aid instead of developing its internal capabilities because it has used crutches for too long as a patient. This research studies the dual impact of essential life-saving assistance which harms native institutions through improper design.

The extensive military conflicts in Somalia have completely broken down both economic foundations and social systems so foreign aid serves as a vital yet disputed life-support mechanism. International aid provides critical humanitarian relief through healthcare and food distribution and infrastructure support, yet long-term development remains restricted by systemic problems. Foreign aid efforts have been unsuccessful to create a lasting development or conflict resolution due to internal systemic problems championed by corruption, mismanagement and lack of local ownership.

This research expands previous findings through its evaluation of improved foreign aid strategies for economic recovery in Somalia. The research investigates methods to combine aid programs with structural reforms so aid can create lasting stability and growth instead of focusing only on emergency relief. This research evaluates past aid interventions to create practical methods for enhancing Somalia's post-conflict economic aid delivery.

The research demands donors to develop new strategies in their aid distribution methods. True assistance needs to create self-sustaining individuals rather than establishing permanent recipients. The program requires Somali community involvement in designing projects while measuring lasting effects and developing local capabilities instead of supply delivery. The respect of Somali knowledge alongside leadership enables aid to shift from emergency relief into sustainable development.

1.3 Research Objectives

- To investigate, historically and presently, the trends of foreign aid flows into Somalia.
- To look at how foreign aid influences GDP growth, public services, infrastructure, and employment among other key economic indicators.

- To assess how aid has changed Somalia's institutional capacity and governance structures.
- To identify the challenges and restrictions aid programs run across as they forward sustainable development.
- To evaluate if donor objectives complement national development needs and policies of Somalia.
- To provide policy recommendations meant to increase the contribution of foreign aid to ongoing economic growth of Somalia.

1.4. Research Questions

1. What foreign aid has Somalia received during the last thirty years and from which countries?
2. Foreign aid has contributed to what extent to the economic growth and development of Somalia?
3. How has foreign aid affected Somalia's institutional and governance frameworks?
4. What are the main factors limiting the effectiveness of foreign aid in Somalia?
5. How can foreign aid be better aligned with Somalia's national development priorities?

1.5 Gaps in the Literature

Research about foreign assistance and economic development is abundant but there is limited evaluation of Somalia's special socio-political and economic situation. The majority of existing research studies evaluate aid effectiveness in general terms while using cross-country comparisons that fail to account for the specific challenges faced by Somalia's fragile government.

The failure to link institutional and governance evaluations with economic data creates a major research gap. Research studies that investigate humanitarian relief outcomes or political effects of assistance do not evaluate the long-term economic effects of assistance flows. The effects of different aid types including developmental humanitarian and security-related aid on Somalia's financial institutions employment trends and economic structures are not well understood.

Furthermore, there is a lack of representation in the literature of Somali stakeholders' voices and viewpoints. The majority of current evaluations mostly depend on donor reports and assessments from international organizations, frequently excluding perspectives from enterprises, legislators, and local people that directly suffer from the effects of assistance programs.

Additionally, there aren't enough long-term studies that document how aid's role in Somalia has changed over time. Questions about sustainability, resilience, and long-term economic change

are mainly left unaddressed by the majority of research, which concentrates on short-term crisis remedies.

By offering a thorough, Somalia-specific analysis that connects institutional development, economic effect, and the political economy of aid—all based on qualitative insights and contextual evidence—this research seeks to close these gaps.

1.6. Scope and Limitations

The research examines foreign aid provided to Somalia from the 1990s until the present day. The research examines various aid forms including bilateral and multilateral assistance together with humanitarian and development aid distributed across health, education, governance and infrastructure sectors. The research examines only official foreign aid which state and nonstate organizations provide to Somalia.

The research depends on secondary data sources which consist of reports from the United Nations and World Bank alongside International Monetary Fund (IMF) documents and publications from Somali government agencies and academic journals and donor agencies. The study bases its conclusions on available qualitative and quantitative insights because of restricted data access in conflict-affected areas. The research does not contain primary field data because security risks and restricted access exist.

The analysis provides an objective evaluation of foreign aid's effects on Somalia's economic development throughout the present day. The analysis maintains a critical perspective toward aid while acknowledging its essential function in reducing suffering and the fundamental structural issues that have limited its effectiveness.

CHAPTER 2: LITERATURE REVIEW

The available research has investigated the economic growth's relationship with foreign aid since multiple years. The early period of foreign financial assistance was seen as a means to reduce economic disparities through savings and investment equalization that developed nations needed for their growth. The positive perspective regarding foreign aid faces opposition from several groups which argue that aid harms domestic governance while producing dependency and economic distortions. (Easterly, 2002)

Foreign aid becomes more complex when analyzing its effects on unstable regions which are experiencing conflicts such as Somalia. The international community has maintained its position as the primary funding source for essential needs and reconstruction in Somalia since the early 1990s when the central government failed. International aid organizations bypass traditional government institutions by funding humanitarian groups together with local entities and flexible governance frameworks when state structures fail to function. The service delivery method enables resource distribution to beneficiaries but creates barriers for both financial planning stability and effective government operations. (ICAI, 2020)

The aid programs in Somalia present both positive aspects and negative consequences. The external funding has enabled various projects to build stronger healthcare networks and educational bases while creating food security improvements across different areas. Assistance programs experience decreased coherence and sustainability because of poor donor coordination together with short project periods and minimal local community participation.

Support from the security sector poses additional difficulties. Security institutions mainly receive foreign funding to fulfill immediate stabilization requirements rather than building enduring institutions. Security organization restructuring efforts that do not resolve fundamental structural problems can result in militarization. (World Bank, 2023)

The general political aspects along with economic impacts of aid hold the same level of significance. Political preferences among donors determine their objectives thus they implement foreign objectives which vary from what local communities truly need for development. The recognition of local ownership together with participatory planning and accountability systems has become crucial for enhancing both aid effectiveness and sustainability. (ICAI, 2020)

Academic research about Somalia's permanent economic effects of humanitarian foreign aid remains insufficient despite many studies on aid programs in unstable nations. The research investigates how distribution of assistance has formed institutions while altering economic systems and either enables lasting development or impedes it. (Shiekh Ali, Ali & Dalmar, 2018)

2.1 Dependency Theory

The Dependency theory maintains that foreign aid leads to permanent economic dependence while sustaining inequality and blocking local governance and innovation. Amin (1976) states that global North aid functions to support donor nation interests through control of recipient countries. The perspective in Somalia shows that donor programs have led to Somali ownership loss and elite capture and parallel governance systems (Hammond, 2013).

2.2 Neopatrimonialism and Aid Effectiveness

The study of aid in fragile states relies on neopatrimonialism to describe how formal institutions operate alongside patronage networks. The diversion of donor funds through elite networks leads to public distrust and weakens governance systems. The aid economy of Somalia operates through clan-based patronage and corruption which affects resource distribution (Menkhaus, 2014).

2.3 Global Experiences with Foreign Aid in Fragile States

The analysis examines international aid delivery approaches for fragile states across the world.

Other fragile or post-conflict nations can provide insights regarding effective approaches for Somalia by analyzing their foreign aid management strategies. Several nations received substantial foreign aid which failed to produce enduring economic development. Successful aid implementation strategies have been observed by some nations. The observed examples demonstrate valuable insights about beneficial strategies as well as potential mistakes to prevent.

2.4 Afghanistan and South Sudan: Aid Without Strong Government

Foreign aid to Afghanistan and South Sudan demonstrated ineffective aid distribution because it occurred independently of government oversight.

Billions of dollars from foreign countries were donated to Afghanistan for post-war reconstruction efforts. Most of the foreign funding entered Afghanistan through outside groups instead of Afghan governmental channels. These organizations constructed roads and schools as well as hospitals throughout the nation. The short-term benefits of foreign assistance created governance weakness because the local administration did not oversee the aid distribution. The country failed to sustain its services after aid programs ended because it lacked the capability to maintain them independently. The country continued to depend on external aid while its strength did not improve (OECD, 2018).

The South Sudan government experienced comparable outcomes. Following its independence in 2011 South Sudan received significant foreign assistance for healthcare as well as food and educational services. Most of the South Sudan's aid received management through international NGOs instead of national government entities. The aid succeeded in sustaining the population yet it failed to develop local responsibility. The population continued to depend on international assistance instead of utilizing their domestic systems. The government maintained an inability to create plans and manage services. The country faced constraints in its development process.

Foreign aid delivers immediate assistance yet fails to produce lasting success when it bypasses government involvement for long-term development. Aid that bypasses government institutions results in country weakening rather than strengthening.

2.5 Rwanda and Ethiopia: Successful Use of Aid for Growth

Rwanda together with Ethiopia demonstrated effective utilization of foreign aid to achieve national growth.

Rwanda together with Ethiopia achieved better results from foreign aid by implementing intelligent strategies. These nations ensured their foreign assistance aligned with their existing development strategies. The countries collaborated with donors to integrate all aid programs with their national priorities instead of allowing outside groups to determine aid distribution.

Rwanda received strong governmental leadership which enabled effective collaboration between the government and donors. The government utilized aid to enhance health services and educational institutions as well as agricultural development. The government effectively allocated aid funds to develop local workforce abilities while enhancing governmental operational systems. The Rwandan government's strategic approach toward aid management resulted in both poverty reduction and economic development. Rwanda stands today as one of Africa's most successful aid recipients according to Booth & Golooba-Mutebi (2012).

The Ethiopian government demonstrated robust authority over foreign aid distribution throughout the country. Through donor support the government-built roads and schools and executed large-scale agricultural development projects. The government of Ethiopia maintained a well-defined national strategy which they asked international donors to assist with its implementation. Public services experienced significant improvements because of these developments which also created better partnerships between national authorities and international organizations.

Successful foreign aid implementation depends on government leadership according to these two instances. The effectiveness of aid increases when it backs domestic initiatives while developing homegrown infrastructure and reinforcing national organizations. Successful foreign aid implementation requires leadership together with planning and active local participation.

2.6 Empirical Studies on Aid in Somalia

Numerous researchers together with aid organizations have produced studies about foreign aid functions in Somalia. Different studies evaluate various types of aid distribution together with the allocation methods and achieved outcomes. Research on aid studies both positive impacts from assistance programs while revealing the difficulties aid providers face. These studies serve as essential tools for identifying effective aid approaches which require future improvement to maximize aid effectiveness in Somalia.

2.7 Humanitarian Aid and Crisis Response

The humanitarian field represents one of the most researched domains in development studies. Somalia has encountered numerous natural and human-made disasters that include droughts and famines together with floods and conflicts. During these challenging periods numerous people survived through international relief assistance.

The 2011 famine in Somalia became the subject of analysis by Bradbury (2010) and Maxwell et al. (2012) when they examined foreign aid distribution. The researchers discovered emergency food combined with water and health services led to the preservation of millions of lives. The

WFP together with the ICRC and numerous NGOs distributed food along with clean water to people in need. Medical care facilities operated to control the spread of diseases.

Somalia faced another severe drought in 2017 which became a major crisis for the country. The Food Security and Nutrition Analysis Unit (FSNAU) together with FEWS NET demonstrated that early aid interventions avoided another famine. Aid organizations distributed clean water resources together with mobile medical facilities and food assistance vouchers to families living in rural settings.

Humanitarian aid receives criticism based on research findings. Humanitarian aid services typically arrive when people are already suffering from hardship. The humanitarian relief efforts are disorganized because different humanitarian organizations do not collaborate effectively thus creating duplicated services and unaddressed areas. The prolonged provision of aid leads to donor fatigue because organizations that donate aid tend to reduce their support after several years of involvement. The long-term support for needy individuals becomes challenging because of this situation.

2.8 Development Aid and State-Building

Research studies have focused on the field of development aid because it differs from emergency assistance. The main purpose of development aid is to construct enduring institutions which include educational facilities as well as hospitals and roads and governmental structures. Research in Somalia investigate how this kind of aid supports state reconstruction and provides better services for citizens.

Menkhaus (2014) detailed how donors used funding and training initiatives to develop Somalia's government institutions. The World Bank launched the Somalia Capacity Injection Project to support local institutions when they recruit skilled employees and enhance operational capabilities. The capital city of Mogadishu shows some advancement while numerous other locations throughout the nation continue to face inadequate government facilities.

The United Nations Development Programme (UNDP) provides support to state-building initiatives. Research by the United Nations Development Programme demonstrates that joint governmental initiatives with federal and local administrations resulted in service improvements for certain communities. The organization has supported efforts to restore police stations and supply electricity to cities while restarting public educational facilities.

But there are still many problems. Research indicates development aid funding goes primarily through international NGOs rather than the government's institutional framework. The Somali government does not gain experience in managing funds or project planning because of this situation. Aid programs typically concentrate on achieving rapid results without long-term planning which reduces the visibility of sustainable advancement.

2.9 Governance and Aid Effectiveness

Research teams analyze how governance systems impact the success of aid programs. Strong honest leadership coupled with effective working systems must exist in Somalia if aid programs

are to achieve success. Multiple studies reveal that aid delivery is frequently obstructed by corruption along with weak laws and political conflicts in Somalia. Menkhaus (2018) discovered that local power struggles and clan politics influence many aid projects. Aid often rests in the hands of local elites who provide assistance only to their affiliated groups. Aid distribution based on elite control creates resentment among people who do not receive benefits while intensifying existing conflicts. Donors face a difficult decision when they must decide between providing fast aid or waiting for equitable distribution of aid.

The tracking of aid money remains an ongoing challenge. The Somali government alongside donors lacks proper tracking data regarding the distribution and usage of aid funds. The lack of clear data prevents donors from determining the actual impact of their donations. The OECD together with Transparency International has proposed new monitoring systems to track aid utilization.

Aid proves effective for improving governance when donors apply proper management to their assistance programs. The Joint Financial Management Board functions as a collaboration between donors and the Somali government to track aid spending which has built trust between both parties. The Somalia Development and Reconstruction Facility (SDRF) serves as an organization which brings donors and government representatives together to pursue common objectives.

2.10 Aid and the Private Sector

Research focuses on an interesting field which examines the impact of aid programs on business activities and economic development. The private sector holds essential value within Somali society. Despite the weak government institutions Somali businesses have expanded their operations through telecommunications services and Hawala money transfer systems and trade activities.

Research conducted by World Bank (2018) alongside Adam & Pical (2020) demonstrates that aid programs benefit local businesses when they invest in infrastructure and provide loans to small businesses and strengthen financial systems. Aid programs which support farmers' agricultural production and women's cooperatives simultaneously decrease poverty levels while boosting income growth.

These research findings emphasize that aid programs need proper planning to achieve their goals. Aid programs which provide free products or services could end up damaging the local business sector. The distribution of free food in markets creates an environment where local farmers cannot successfully sell their agricultural products. Aid initiatives need to maintain partnership with private sector businesses rather than creating competition between them.

2.11 Local Voices and Community-Based Aid

Researchers have conducted investigations to understand how Somali citizens perceive aid programs. Multiple studies by Interpeace (2017) and Conflict Research Programme (LSE, 2021) demonstrate that Somalis mostly desire community-focused aid programs. The population

supports aid programs that listen to their local needs while respecting their cultural heritage and involving local leaders in the process.

Research indicates that people trust decisions made from the ground up instead of those imposed from the top. The involvement of people throughout the planning process increases their willingness to back and contribute to projects. Local aid programs that use staff from the community and maintain local language and cultural understanding prove to be more effective.

The implementation of community-based aid programs faces certain boundaries. Reaching consensus in conflict-prone regions remains difficult and local leaders might bring their personal prejudices to the table. The involvement of local people in planning processes leads to better aid distribution because it enhances fairness and effectiveness.

2.12 Development Aid and State-Building

Somalia's delivery of public services and state reconstruction has received substantial support from development aid. The World Bank (2019) together with UNDP (2020) demonstrated how international partner funds improved educational facilities and healthcare services and built fundamental infrastructure including roads and water systems. Through initiatives such as the Somalia Multi-Partner Fund and the Reconstruction and Development Program multiple regions have achieved development in clean water systems and constructed new school buildings and clinics.

The implemented programs worked toward improving Somali institutional capacity. These programs support enhanced budget management and increased transparency alongside the delegation of power to local government authorities. The programs provide public servant training alongside basic administrative infrastructure development. Donor organizations put their resources toward establishing systems which will build an autonomous state that can perform its own administrative tasks.

Experts claim that the majority of aid programs remain donor-driven instead of Somali-led initiatives. The aid distributions follow international organizational plans instead of local community requirements. The existing disparity between community needs and available aid programs persists. Critics maintain that weak national ownership combined with delayed progress stands as an obstacle to genuine development.

2.13 Aid Coordination and Fragmentation

The main issue affecting Somalia's aid management system exists in its disorganized coordination efforts. International donors transmit funds to Somali institutions and NGOs yet fail to collaborate in their initiatives. Donors work independently through their distinct objectives and operational frameworks together with separate schedules. Different aid programs operate independently from one another without coordinated activities.

Bryld et al. (2014) analyzed data which revealed Somalia has more than thirty major donors simultaneously operating within its borders. The donors include both public entities and international organizations together with private sector groups. The different operational

frameworks for planning and reporting and results assessment lead to duplication of efforts between aid programs. The funding efforts of multiple donors result in duplicate support for the same geographic region yet other areas remain without assistance.

The absence of unity creates challenges in strategic planning and tracking program progress and maximizing funding effectiveness. The variety of donor expectations creates confusion among local leaders because they must manage various rules from multiple funding organizations.

2.14 Conditionality, Ownership, and Donor Influence

Foreign donors enforce specific requirements upon recipients of their assistance. Foreign donors need Somali government institutions to adopt certain rules or policies to obtain their funding. The required conditions focus on security matters along with counterterrorism programs and political transformations.

Donor control over Somalia's choices occurs through their ability to enforce governance improvements. According to Hoehne (2015) Somalia's sovereignty faces risk of erosion due to donor-imposed conditions. Government leaders prioritize donor requirements over domestic citizen perspectives.

Security aid provided to combat terrorism has generated more weaponry and stronger militant groups instead of establishing lasting peace and safety. The implementation of conditional aid raises questions regarding its actual contribution to country stability.

2.15 Corruption, Misuse, and Aid Diversion

Aid system management in Somalia faces a major challenge from corruption. Reports from Transparency International and United Nations internal audits demonstrate that some aid funds are lost or stolen. The mismanagement of funds occurs through three main channels: the illogical increase of project costs and the payment of funds to fraudulent made-up companies and the allocation of funds to unqualified contractors.

The Financial Governance Committee (FGC) of Somalia discovered multiple instances of lost aid during its 2013 investigation into weak regulations and insufficient monitoring practices. The absence of legal protection alongside control systems permits individuals to exploit aid funds. The heightened donor skepticism reduces partnership trust between international organizations and Somali public officials.

The persistence of corruption will create insurmountable barriers toward establishing a robust self-sufficient and just Somalia. The successful management of aid together with improved oversight and robust legal frameworks serves to protect aid resources from waste while safeguarding the intended recipients of assistance.

CHAPTER 3: METHODOLOGY

This study is based on a qualitative desk research and quantitative analysis to explore the impact of foreign aid on the Somalia's economy. Because of the poor security environment in Somalia and the problem of accessing credible government documents, the research will only depend on the available and credible online sources. There was no fieldwork, including interviews and surveys, so all the data and analysis are based on secondary sources—materials already written by experts, researchers, and international institutions.

The study includes three research approaches: secondary data analysis, content analysis and comparative case studies. It does not only gather information but also interpret it.

The objective is to both show the flow of foreign aid to Somalia and explore the effects of this aid on the economy, institutions, and services. The research uses various types of sources to provide a comprehensive and comprehensive understanding of the issue.

3.1 Data Sources

The research is based on evidence from four categories of sources:

3.1.1. International Organizations:

Most of the data was obtained from international organizations that are involved in monitoring and supporting development in vulnerable countries. These include:

- World Bank: This is because the World Bank issues the Somalia Economic Update which is an annual report that provides an overview of the economy of Somalia and the impact of aid on public expenditure and service delivery.
- International Monetary Fund (IMF): This includes the macroeconomic reports such as Article IV Consultations which review Somalia's economic situation and policy framework.
- United Nations Development Programme (UNDP): Reports on human development, governance and how aid is used or not used to benefit the communities are published by UNDP.
- OECD-DAC: Provides essential statistics and analysis on aid effectiveness, donor flows and problems in fragile contexts.
- UNOCHA (United Nations Office for the Coordination of Humanitarian Affairs): This includes humanitarian funding data and response plans which are important in understanding where and how aid is used.

- Other UN agencies like UNICEF, WFP and WHO offer details on education, nutrition, and health programs that are supported by foreign aid.

3.1.2. Academic Research and Policy Think Tanks

To explain the underlying factors and impacts, the study uses literature from the development field and academic articles. Articles from peer-reviewed journals provide a theoretical understanding of how foreign aid affects weak institutions and social problems. Books by Somalia experts such as Ken Menkhaus and Ioan Lewis provide background information.

Policy-oriented organizations like the Center for Global Development, African Development Bank and the Heritage Institute for Policy Studies have insights through reports and case studies on aid effectiveness, donor behavior, and local impact.

3.1.3. Donor Agencies and NGOs

Large donor agencies such as USAID, DFID (UK), SIDA (Sweden), DANIDA (Denmark) and the European Union have provided reports on the projects they have funded including the objectives, the activities, and the achieved outcomes. The evaluations by NGOs and multi-donor platforms such as the Somalia Stability Fund and UN Joint Program on Local Governance explain how aid is delivered in real life.

Therefore, this study has concentrated on using open, credible and accessible sources to enhance the validity, reliability and generalizability of the findings.

CHAPTER 4: FINDINGS

4.1 Macroeconomic Stability

Macroeconomic Stability In recent years, foreign aid has boosted Somalia's economy by financing debt relief and reforming its finances. Economic growth was steady with the IMF's and World Bank's programs, so the GDP grew to 3.7% in 2024 (IMF, 2024; World Bank, 2024). Because of aid, the budget was planned better, and more money was collected.

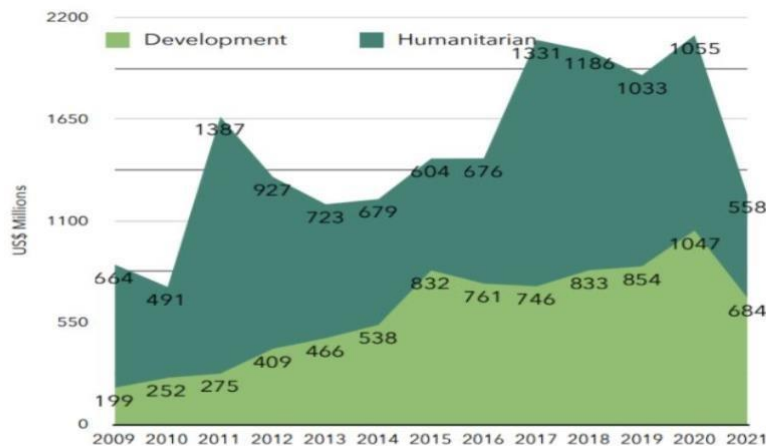


Figure 2. Fluctuations in Aid flows 2009–2021, (United Nations Somalia, 2021)

4.2 Providing services and infrastructure for the public

Providing services and infrastructure for the public with not enough government services, overseas development help has contributed largely to offering education, medical care and safe water. Both organizations have assisted schools and health projects in locations that have been affected by drought. Through the programs offered by the World Bank and EU, roads, energy, and employment continue to develop in Somalia.

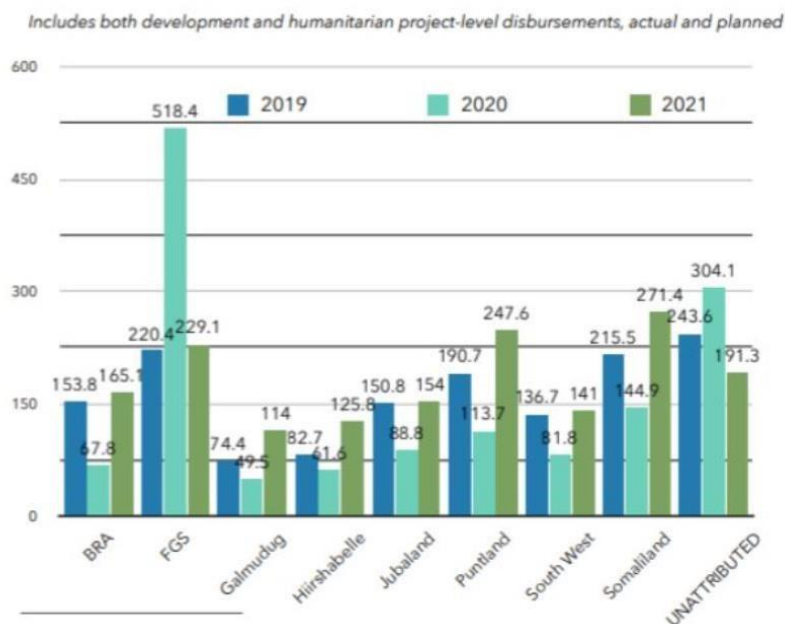


Figure 3. Aid Allocation by Location, (United Nations Somalia, 2021)

4.3 Governance throughout History Enhancing institutions and financial disclosure

Governance throughout History Enhancing institutions and financial disclosure in Latin America has benefited from foreign assistance. Because of political instability, the IMF and World Bank's programs experienced only limited changes in governance and accountability (OECD, 2020).

Table 1. Reported ODA, 2019-21			
US\$ m	2019	2020	2021
Humanitarian	1,033	1,055	558
Development	854	1047	684
Total ODA	1,887	2,102	1,243

Table 1. Reported Official Development Assistance, (United Nations Somalia, 2021)

4.4 Humanitarian Aid

Humanitarian Aid Much of the aid provided has gone to deal with emergencies. During 2020, plans for over \$1 billion went into helping people affected by drought, conflict, and displacement (UN Somalia, 2020). Support for this conflict focuses on what is urgent now, at the cost of plans for the future.

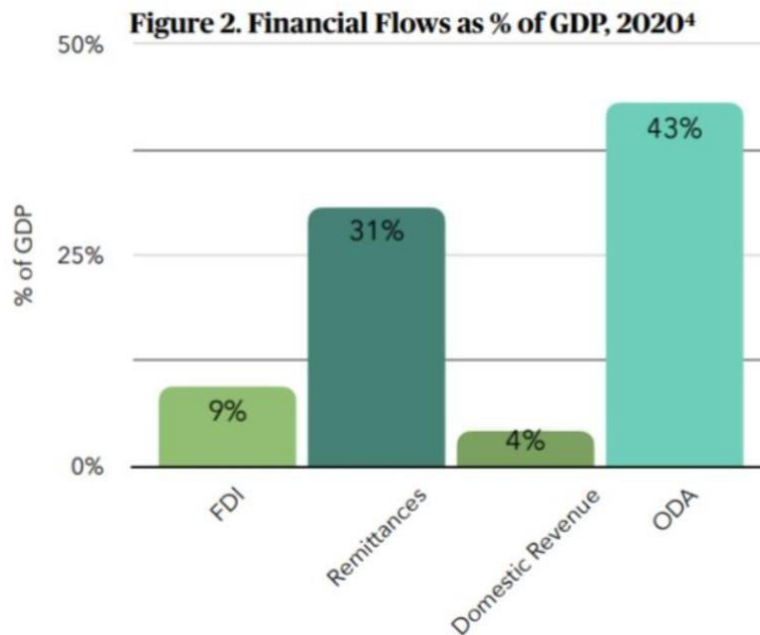


Figure 4. Financial Flows as % of GDP in 2020, (United Nations Somalia, 2021)

4.5 Aid Coordination

Aid Coordination There are coordination tools in place, but aid still reaches people in a divided way. A lot of donors choose to work apart from the government because of fears about corruption, so guaranteeing the continuity of assistance is difficult (OECD, 2020).

Table 2. Development Aid by partner 2019-2021, (United Nations Somalia, 2021)

Table 2. Development Aid by Partner, 2019-2021⁵
US\$ millions, listed in alphabetical order

	2019	2020	2021	Total
ADB	26.3	31.5	0.0	57.9
Canada	0.8	5.5	6.6	12.9
Denmark	11.9	19.9	23.0	54.9
EU	107.3	112.2	114.6	334.1
Finland	16.4	23.6	21.7	61.7
Germany	81.7	140.4	89.0	311.1
Global Fund	30.0	23.1	39.0	92.0
Italy	12.5	17.4	20.7	50.6
Japan	2.0	6.3	0.0	8.3
Netherlands	32.6	0.0	0.0	32.6
Norway	47.2	47.2	0.0	94.4
Sweden	70.3	75.3	82.8	228.5
Switzerland	17.9	15.0	13.3	46.3
UK	135.1	91.6	0.0	226.8
UN PBF	9.5	3.9	13.0	26.4
UNDP	12.0	12.0	12.0	36.1
UNFPA	2.2	2.7	0.0	5.0
UNIDO	0.0	2.3	5.5	7.7
USA	63.0	46.0	43.2	152.2
World Bank	175.0	370.5	200.0	745.5
Total	853.9	1046.6	684.5	2585.0

Table 2. Development Aid by partner 2019-2021, (United Nations Somalia, 2021)

4.6 Business communities

Business communities have also received help. Work by the FAO and EU has helped guarantee that people facing drought can farm using seeds and irrigation systems that can withstand it. The effort to help youth in cities gain work and education has achieved some goals, but World Bank (2024) points out that publicly funded projects are held back by the weaknesses of private business sectors.

Fund	Donor	2014	2015	2016	2017	2018	2019	2020	Total
AfDB SIF	ADB			18.4		7.6	25.0		51.0
	Italy				1.7	1.2	2.2		5.1
	UK			1.9					1.9
	IsDB						3.0		3.0
	Sub-total			20.3	1.7	8.8	30.2	0.0	61.0
UN MPTF	Denmark		2.5	9.7	5.5	2.8	7.4	6.9	34.9
	EU		28.0	8.4	9.5	7.5	16.1	9.5	79.1
	Finland					2.3	3.4	6.7	12.3
	Germany			8.4	3.8	12.5	4.4	3.7	32.8
	Italy		0.7	4.2	2.7	6.5	3.4	6.6	24.0
	Netherlands				2.4	4.6	2.6	5.1	14.6
	Norway		4.7	5.3	3.7	9.2	8.6	7.4	39.0
	Sweden		13.1	7.5	14.4	38.3	19.2	14.7	107.3
	Switzerland		2.3	4.9	2.3	4.5	7.1	6.7	27.9
	UK		10.8	14.1	8.2	0.6	1.3	0.9	36.0
	UN PBF		4.1	2.1		0.7	1.0	0.7	8.6
	USA			0.5		1.5		2.5	4.5
	Sub-total		66.2	65.0	52.5	91.1	74.5	71.5	420.8
WB MPF	Denmark		4.1	2.6	3.8	3.4	7.5	6.1	27.5
	EU	13.3	21.6	9.7	14.9	32.7	17.8	23.0	133.0
	Finland			2.3		1.2	2.2	2.7	8.3
	Germany				28.9	28.5	16.5	16.6	90.5
	Italy		2.2						2.2
	Norway		4.9	6.0	14.6		34.0	16.3	75.9
	Sweden	9.5	8.1	4.3	6.0	8.3	10.4	12.5	59.1
	Switzerland	1.0	5.2	1.9		1.5	4.2	1.1	15.0
	UK	16.0	23.6	22.8	6.5	14.7	12.4		95.9
	USA			3.0			10.0	9.9	22.9
	WB SPF	8.0							8.0
	Sub-total	47.8	69.6	52.6	74.8	90.3	115.0	88.2	538.4
Total		47.8	135.8	137.9	129.1	190.2	219.7	159.7	1020.2

Table 3. Donor Contributions through SDRF, (United Nations Somalia, 2021)

Table 3. Donor Contributions through SDRF, (United Nations Somalia, 2021)

4.7 Regional Inequality

Regional Inequality Much of the aid is given to Mogadishu rather than to Galmudug and Lower Juba. Consequently, some regions are much less developed than others. A few donors have set up mobile units and designed flexible funding plans to reach these regions (UN Somalia, 2020).

FINDING

1.Stabilization of the macro-economy

KEY IMPACTS

Foreign aid supported debt relief (HIPC).

Improved fiscal discipline.

Enabled concessional financing.

Contributed to steady GDP growth (3.7% in 2024).

2. Support for Public Services and Infrastructure	Aid funds essential health, education, food security, and limited infrastructure development (roads, markets, energy).
3. Strengthening institutions and Governance	Aid helps build federal/regional institutions. Improve civil service, enhance transparency, and local governance.
4. Humanitarian Assistance and Crisis Response	Over \$1B in 2020 used to address drought, displacement, and conflict. Saved lives but hinders long-term development planning.
5. Donor coordination and Challenges	Parallel systems and corruption concerns reduce effectiveness. Coordination platforms exist but vary in impact.
6. Economic Sectors and Livelihoods	Aid supports agriculture, fishing, youth employment, and entrepreneurship but sustainability is weak due to limited private sector frameworks.
7. Aid and Regional Disparities	Aid concentrated in accessible urban centers, neglecting conflict affected remote areas; increases regional inequality.

Table 4. Summary of the Research Findings

CHAPTER 5: DISCUSSION

Foreign aid stands as the essential force which helped Somalia achieve economic recovery and stability. The intervention has delivered complex results which create both advantages and disadvantages. The discussion examines Somalia's economic evolution through foreign aid using statistical data from current reports.

5.1 Humanitarian Aid: Lifeline Amidst Crises

The combination of droughts with conflict and political instability has caused Somalia to experience multiple humanitarian crises. The provision of humanitarian assistance proved essential for meeting the urgent requirements. According to the 2023 Humanitarian Response Plan, aid was needed for 8.25 million people among whom 7.6 million were identified as vulnerable (UNOCHA, 2023a). The required funding of \$2.6 billion for humanitarian assistance remained underfunded because donors secured only 47.4% of the total amount (UNOCHA, 2023b).

5.2 Development Aid: Progress and Limitations

Through development aid Somalia has received support to establish new institutions as well as rebuild its infrastructure. The Heavily Indebted Poor Countries (HIPC) Initiative Completion Point approval by the IMF and World Bank in December 2023 enabled Somalia to achieve total debt service savings of \$4.5 billion (IMF, 2023a). Somalia's external debt decreased from 64% of GDP in 2018 to less than 6% by the end of 2023 according to IMF data (IMF, 2023b).

The Extended Credit Facility (ECF) of the IMF has supported Somalia's economic transformation initiatives. Real GDP growth in Somalia is expected to reach 3.7% in 2024 according to the 2024 Article IV Consultation and Second Review under the ECF which is driven by agricultural recovery and higher remittances and investments (IMF, 2024).

5.3 Aid Dependency and State Legitimacy

The substantial dependence of Somalia on foreign assistance creates two main problems: dependency on foreign aid and reduced state authority. The OECD indicates that official development assistance (ODA) continues to function as the main funding mechanism for development aid (OECD, n.d.). Excessive aid dependence creates obstacles for developing domestic revenue systems together with governance structures (OECD, n.d.).

5.4 Sectoral Disparities in Aid Allocation

The aid distribution process in Somalia demonstrates clear imbalances between different sectors. Health and nutrition programs have obtained large financial backing, yet education and infrastructure have received less support. The 2023 Humanitarian Response Plan directed major funds toward food security and livelihoods yet education and shelter received fewer resources (UNOCHA, 2023b).

5.5 Coordination Challenges Among Aid Actors

Multiple donors alongside implementing agencies working in Somalia create coordination issues. The absence of a single aid management system leads to duplicated work which generates operational inefficiencies. According to the OECD it is vital for donors to align their aid with national development objectives for better results (OECD, n.d.).

5.6 Political Economy of Aid

The political environment surrounding aid distribution in Somalia features intricate elements. Reports show that political actors have used aid streams for their own purposes by engaging in diversion and misuse activities. The implementation of transparent and accountable aid distribution methods stands essential for preventing misuse while fostering public trust according to OECD and UNOCHA (2023a)

CHAPTER 6: CONCLUSION

This research investigates how foreign aid impacts the development of Somalia's economic framework. This analysis explores the impact of foreign aid on public service delivery and national development programs alongside economic stability maintenance. The research demonstrates Somalia uses extensive foreign aid support to run government activities and provide basic requirements for its population.

The national income generated by Somalia stands significantly lower than its actual economic dimension. Government revenues from taxation fail to support standard public services including healthcare along with education facilities and infrastructure and security capabilities. Foreign government aid alongside international organization support maintains the operation of the country. The majority of the government budget relies on donor funding while numerous regions depend solely on aid programs for public service delivery.

Somalia directs most of its international foreign assistance toward humanitarian crisis relief. The aid distribution targets emergency food aid together with medical services and water and shelter requirements during times of natural disasters including floods and droughts. During the previous few years Somalia encountered multiple humanitarian crises because of food deficits and population displacements along with disease outbreaks. Humanitarian aid has served as a lifesaving force which enabled millions of people to survive these critical situations.

The main disadvantage of depending exclusively on emergency-based aid proves to be quite significant. Short-term aid functions as a stopgap solution that does not establish employment opportunities while failing to enhance long-term healthcare infrastructure and educational systems or develop infrastructure. When aid focuses only on short-term survival needs it creates prolonged periods of dependency. The present situation requires additional funding to support long-term development initiatives that will reduce poverty and stimulate economic growth while establishing Somali self-sustainability.

The country has been through several beneficial transformations throughout the previous years. Somalia has achieved progress through better financial management and decreased inflation rates as well as economic sector reconstruction. The central bank has improved financial service management through regulatory efforts and digital payment systems have rapidly expanded which enhances banking accessibility. The reforms have earned donor confidence which supports ongoing financial and technical assistance. The recent positive transformations indicate that reform efforts become achievable when they receive sufficient backing despite their current vulnerability.

Through aid programs the availability of educational facilities and healthcare facilities as well as clean water access has increased. Aid agencies support the operation of numerous educational institutions along with healthcare facilities throughout the country. International donors have invested in building public infrastructure such as roads and bridges primarily throughout urban zones. The country achieved better health results through programs that fight malnutrition and provide vaccinations and maternal care services in specific regions.

The progress made in certain areas does not address all the ongoing issues. The majority of Somali citizens face poverty while young people face restricted job prospects. The delivery of public services remains insufficient throughout rural areas because they lack fundamental infrastructure. Political disagreements together with security threats in particular areas create barriers for aid delivery to reach every community.

The main issue lies in the inadequate connection between aid programs and the Somali government operations. Multiple international organizations directly execute their aid plans through separate delivery systems which fail to establish proper collaboration with both national and local institutions. The government faces restricted planning capabilities together with reduced capacity development because of this limitation. The separate operation of different agencies on identical tasks results in both unnecessary duplication and wasteful spending in certain situations.

Foreign aid proves most effective for nations when it promotes national priorities and strengthens domestic institutions. Aid initiatives become more effective when organizations maintain open systems and use transparent approaches and establish goals which extend beyond short-term objectives. The receiving nation should develop its skills and systems and decision-making capabilities so it can take charge of its future development.

Somalia needs to transition from short-term humanitarian assistance to long-term development assistance. Development support needs to increase funding for educational programs and job training alongside small business development and infrastructure construction and governance reform initiatives. The process requires donors to establish better partnerships with Somali institutions although these institutions are still developing. Such an approach will establish an independent economy which grows stronger with time.

The analysis requires consideration of climate risks that should be incorporated into the assessment. Somalia experiences regular droughts that lead to food scarcity and rising poverty rates. Climate change produces both destructive floods and elevated temperatures that damage agricultural fields and built infrastructure. Aid programs should implement water management improvements and climate-smart agriculture programs and disaster-resistant infrastructure construction to support communities during environmental changes.

Aid functions as a necessary tool but it will not serve as a long-term solution. Real and lasting progress requires internal initiatives while foreign assistance creates opportunities for recovery and growth. Public institutions operated by the Somali government must enhance their capabilities through efforts to combat corruption and generate domestic revenue streams. The government should create stronger security measures along with political reconciliation efforts to enable aid and investment penetration into new areas.

The Somali people have proven to be adaptable while displaying outstanding resilience in their ability to adapt to new situations. People in communities have established unofficial support systems while inventing new methods of conducting business through mobile money

technologies. Development efforts should expand local strengths that already exist in the community.

The research demonstrates the dual outcomes of using aid to promote economic development in Somalia. Foreign aid has performed vital lifesaving operations and built important infrastructure across various regions of the nation while maintaining stability in affected areas. The government managed to maintain operations through hard times with the help of foreign aid. The current aid distribution system has not managed to create sufficient employment opportunities or successfully lower persistent poverty or support sustainable development.

Foreign aid must transform its approach to achieve lasting development for Somalia. The aid should support Somali-led development plans while investing in local capacity and promoting resilience to future challenges. Donors need to improve their coordination efforts while planning for the long term and making their programs match national objectives. The Somali government needs to take greater responsibility for resource management and public service delivery while developing robust institutions.

In a nutshell, foreign aid serves as Somalia's present-day survival tool while it should build a path toward an independent and stronger future. Aid can help Somalia build a stable prosperous self-reliant economy through sustained reform efforts and cooperative planning and mutual support.

Implications

The research findings have some significant implications:

- Donors must direct their aid toward helping Somalia achieve its development targets instead of focusing on immediate relief needs. Donors must establish better coordination between their activities and with Somali institutions.
- The Somali Government needs to take stronger action for developing robust transparent systems and achieving public trust. The government needs to establish leadership to coordinate aid programs.
- Development Partners should support infrastructure development which creates employment opportunities and generates higher incomes while fighting poverty.
- Better preparation of aid programs must address climate risks as a fundamental requirement. The region experiences harsh droughts together with floods which simultaneously harm both food security and health outcomes. The government must support communities to build their resilience and adaptive capacities for dealing with natural disasters (FAO, 2023).

Limitations

The research study contains several limitations which affect its findings. I was unable to conduct field research inside Somalia because of being here in Turkey and was unable to get interviews with experts at home to discuss the research with and I also faced limited data availability. Most data came from secondary sources. The analysis heavily relies on international data from World Bank and IMF and UN agencies because Somali government offices provide limited reliable statistics.

Recommendations

The following recommendations emerge from the research findings:

- More donations should be directed toward long-term development efforts instead of solely funding emergency response programs. Donors should support Somali institutions whenever possible through their systems and provide assistance for improving these systems instead of bypassing them.
- Donors should coordinate their efforts while preventing duplicated efforts. Joint programs together with pooled funds help achieve better results in aid delivery.
- The development of local capacity through professional training and institutional strengthening will ensure sustainable aid delivery.
- Aid programs should implement climate resilience strategies through improved water management systems and farming techniques and early warning systems.
- Public leaders in Somalia must maintain their efforts to improve the transparency of financial management. The donors should dedicate their resources to fight corruption while making information accessible to the public.

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Appendix

Acronym Meaning

ODA	Official Development Assistance
HIPC	Heavily Indebted Poor Countries Initiative
SDRF	Somalia Development and Reconstruction Facility
MPF	Multi-Partner Fund (World Bank)
MPTF	Multi-Partner Trust Fund (UN)
SIF	Somalia Infrastructure Fund (AfDB)
GDP	Gross Domestic Product
FGS	Federal Government of Somalia