STATE BANK OF PUNTLAND
since 1998

ECONOMIC VULNERABILITY AND RESILIENCE IN PUNTLAND, SOMALIA

Assessing the Effects of ISIS Insurgency, Foreign Aid Reduction, Recurrent Droughts, and the Iran-Israel Conflict

Condensed Synopsis of the Full Research Report

STATE BANK OF PUNTLAND

since 1998

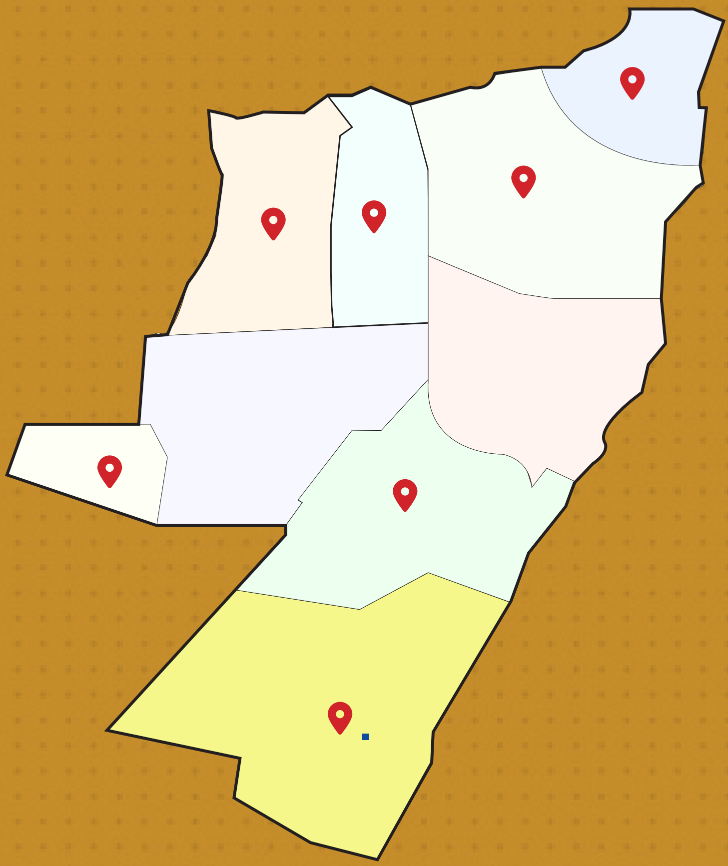
Prepared by the

DEPARTMENT OF RESEARCH AND STATISTICS, THE STATE BANK OF PUNTLAND

in cooperation with

THE RESEARCH & PROFESSIONAL DEVELOPMENT CENTER AT EAST AFRICA UNIVERSITY, GAROWE CAMPUS & PUNTLAND DEVELOPMENT RESEARCH CENTER (PDRC)

JULY 2026



WHERE WE WORK

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- Badhan branch
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INTRODUCTION

Puntland State of Somalia is navigating a period of compounding economic pressure. Insurgent activity by ISIS-Somalia, a marked decline in foreign development assistance, recurrent and increasingly severe drought cycles, and the transmission of global commodity and fuel price shocks tied to the Iran-Israel conflict have converged over the same period, each reinforcing the economic damage caused by the others. The State Bank of Puntland's Department of Statistics and Research conducted an empirical study assessing how these shocks, individually and in combination, have affected economic performance, livelihoods, government finances, and the resilience of Puntland's economy.

This document is a condensed synopsis of that study report. It retains the study's central arguments, evidence, statistical findings, and policy recommendations, while removing repetition and secondary detail not essential to decision-making. It is intended to give Cabinet-level readers, development partners, and institutional stakeholders a complete picture of the study's findings without requiring a reading of the full report.

BACKGROUND AND CONTEXT

Puntland, a semi-autonomous region in northeastern Somalia, has spent the past decade managing overlapping security, humanitarian, and economic pressures. ISIS-Somalia and Al-Shabaab-affiliated militants have carried out attacks against government institutions, security forces, and civilians, while extorting local businesses, particularly in Bossaso, Puntland's principal commercial hub. Security analysts note that ISIS-Somalia has expanded its footprint in the Bari region and the Golis Mountains, and the Puntland government mounted a major military offensive against the group in 2025 with international support, at high fiscal cost. These dynamics force the government to divert resources from development spending toward security operations, while simultaneously discouraging the domestic and foreign investment the economy needs to grow.

Puntland's development financing has historically relied heavily on external assistance. Somalia as a whole became one of the largest recipients of Cold War-era foreign aid in Sub-Saharan Africa, and although assistance declined after the collapse of the Siad Barre government in 1991, renewed international security concerns after 2001 drove a resurgence in aid flows. Foreign assistance now accounts for more than 20 percent of Somalia's GDP and exceeds the federal government's domestic revenue. Global reductions in Official Development Assistance in 2025, including the suspension of USAID funding, have significantly constrained donor-funded development and humanitarian programming across Somalia, including Puntland.

Between 2021 and 2023, Puntland experienced one of its most severe humanitarian and economic crises, driven by recurrent drought. Because livestock production is the backbone of the regional economy, the loss of grazing land, water sources, and animal health during prolonged rainfall failure translated directly into falling household income, reduced export volumes, and rising humanitarian need. The Puntland government deployed roughly 4,000 water trucks alongside emergency food assistance during the drought response, redirecting resources that would otherwise have gone to longer-term development priorities.

Beyond these internally rooted pressures, Puntland's economy remains tightly linked to global trade and energy markets despite having no direct involvement in international conflicts. The escalation of tensions between Iran and Israel disrupted shipping through the Strait of Hormuz and pushed up global crude oil and food prices. Because Puntland imports most of its fuel, food, medicine, and construction materials, these external price shocks were transmitted quickly into domestic markets, raising the cost of living for households already under strain from insecurity, aid contraction, and drought.

PURPOSE OF THE STUDY

Puntland's economic vulnerability is shaped by the combined and compounding effect of internal instability and external shocks. Prior research has treated terrorism, aid dependency, drought, and geopolitical shocks as separate subjects of study, most often at the national Somali level rather than within a specific sub-national economy such as Puntland. This left policymakers and development partners with limited evidence on how these pressures interact, and consequently limited ability to design integrated responses. The study was designed to close that gap: to assess, in a single evidentiary frame, how ISIS insurgency, foreign aid reduction, recurrent drought, and the Iran-Israel conflict have together shaped Puntland's economic vulnerability and resilience, and to translate that evidence into practical strategies for recovery and long-term development.

The report positions this gap against a body of prior research that examined these pressures individually rather than in combination. Studies grounded in Conflict Economics Theory have shown that insecurity and violent extremism reduce investment, trade, employment, and business activity; climate vulnerability research has documented the effects of recurrent drought on livelihoods, food security, and productivity; and Dependency Theory-based studies have examined how reduced foreign assistance affects government financing and development outcomes in aid-reliant economies. Most of this prior work, however, analyzed Somalia at the national level or treated each shock in isolation, leaving limited empirical evidence on how insecurity, aid contraction, drought, and geopolitical disruption interact within a specific sub-national economy such as Puntland. This study's stated contribution is to address that specific evidentiary gap.

The study is intended to serve several audiences directly: the Puntland government, in guiding economic recovery policy, domestic revenue mobilization, and crisis preparedness; development and humanitarian partners, in prioritizing interventions and allocating resources; the private sector, in business continuity and investment planning; and local communities, in understanding the forces shaping household livelihoods and food security.

STUDY OBJECTIVES

General Objective

To evaluate the extent to which multiple internal and external shocks, including ISIS insurgency, foreign aid reduction, recurrent droughts, and the Iran-Israel conflict, have affected the economic vulnerability and resilience of Puntland State of Somalia, and to identify strategies for strengthening sustainable economic resilience and development.

Specific Objectives

- Examine the effect of violent extremism on economic activities in Puntland.
- Assess the impact of foreign aid reduction on economic development in Puntland.
- Evaluate the combined effects of violent extremism and foreign aid reduction on employment and household livelihoods.
- Examine the relationship between the Iran-Israel conflict and fuel price changes in Puntland.
- Assess changes in the prices of selected essential food commodities during the conflict period.
- Identify strategies for strengthening economic resilience and sustainable development in Puntland.

METHODOLOGY

The study used a mixed-methods design combining primary and secondary data, but the two data streams were not applied evenly across the four shocks. Primary data collection was limited to the ISIS insurgency component. A structured questionnaire and Key Informant Interview guide were administered in Bosaso District to a purposively selected sample of government officials, security personnel, business owners, and community leaders, chosen for their firsthand exposure to the economic effects of insurgent activity.

The target population for this component totaled 80 individuals across three categories: government officials (15), business owners (50), and community leaders (15). Using the Krejcie and Morgan (1970) table for sample size determination, a sample of 66 was drawn (10 government officials, 40 business owners, 16 community leaders). Of the 66 questionnaires distributed, 64 were fully completed, yielding a 96.9 percent response rate. The respondent pool was 76.6 percent male and 23.4 percent female, and the majority held more than five years of relevant professional experience.

Instrument reliability was tested through a pilot study of 10 respondents outside the final sample, producing a Cronbach's Alpha of 0.78, above the 0.70 threshold considered acceptable for internal consistency. Content validity was established through expert review by the research supervisor and subject specialists in research methodology and conflict studies. Cronbach's Alpha was applied only to the closed-ended questionnaire; consistency in the Key Informant Interviews was maintained through a standardized guide and uniform interview procedures rather than a statistical reliability measure.

Foreign aid reduction, recurrent drought, and the Iran-Israel conflict were assessed using secondary data only, drawn from Puntland government budget documents (2020 to 2026), the Ministry of Finance, the World Bank, the IMF, the African Development Bank, UN agencies including OCHA, FAO, and UNCTAD, and humanitarian assessment reports. No primary questionnaire or interview data were collected for these three components. This is a material distinction for readers of the findings: conclusions on ISIS rest on a statistically tested primary sample from one district, while conclusions on the other three shocks rest on secondary trend data and are not independently corroborated through field-level perception data.

The study area for primary data collection was Bosaso District, selected because it has experienced direct security and economic impacts from the insurgency and functions as Puntland's principal commercial hub. The report notes this location was chosen specifically for its exposure to ISIS-linked disruption, which should be read as a purposive rather than a representative choice: findings from Bosaso describe the district most affected by insurgent activity, and the report's extension of these findings to "Puntland" as a whole assumes, rather than demonstrates, that other districts experienced comparable effects.

RESPONDENT CATEGORY	TARGET POPULATION	SAMPLE DRAWN
Government officials	15	10
Business owners	50	40
Community leaders	15	16
Total	80	66

Purposive sampling, a non-probability technique, was used to select all three respondent categories on the basis of their direct exposure to the economic effects of ISIS activity: business owners for their firsthand experience of extortion, disruption, and rising security-related costs; government officials and security personnel for their role in security, governance, and policy implementation; and community leaders for their broader knowledge of social and economic effects within their communities. Because selection was purposive rather than random or stratified by geography, the sample is best read as a targeted panel of informed respondents rather than a statistically representative cross-section of Puntland's population.

The questionnaire combined five-point Likert scale items, categorical questions, and frequency-based closed questions, with a small number of open-ended items to capture additional detail. It was developed in English and administered in Somali by trained enumerators through face-to-face interviews. Content validity was strengthened through a pre-implementation pilot with 10 respondents outside the final sample, drawn from business owners in a comparable but separate location, which also produced the Cronbach's Alpha reliability estimate of 0.78.

OVERVIEW OF THE MAJOR SHOCKS AFFECTING PUNTLAND

VIOLENT EXTREMISM (ISIS INSURGENCY)

ISIS-Somalia and Al-Shabaab-affiliated militants have carried out attacks on government institutions, security forces, and civilians, while extorting businesses and imposing illegal taxation, particularly in Bossaso. Security analysts cited in the report note that ISIS-Somalia has expanded its presence in the Bari region and the Golis Mountains, and Reuters reporting cited in the study describes the group strengthening its finances through extortion of local businesses and financial institutions. The Puntland government's 2025 offensive against ISIS involved extensive military operations, conducted with international partner support, and diverted substantial public resources toward security rather than development spending. The report also links insecurity to a self-reinforcing recruitment dynamic, in which unemployment and limited economic opportunity increase vulnerability to extremist recruitment, which in turn deepens insecurity and further constrains economic opportunity.

FOREIGN AID REDUCTION

Puntland has depended significantly on foreign aid to finance public services, infrastructure, health, and education, channeled substantially through an off-budget system in which international organizations finance development activity outside the government's own treasury accounts. Global reductions in Official Development Assistance, including the suspension of USAID funding and declining contributions from major donors, have constrained donor-funded programming across Somalia. Budget data show foreign revenue and total government budget both declining sharply in the 2026 projections after several years of growth, a pattern the report treats as an early warning of tightening fiscal space rather than a fully realized outcome, since 2026 figures remain projections.

RECURRENT DROUGHT

Puntland's economy depends heavily on livestock and pastoral livelihoods, which the report identifies as the backbone of both household income and government export revenue. Repeated seasons of below-average rainfall have depleted grazing land and water sources, reduced livestock productivity, and pushed an estimated two million people across Somalia into emergency-level food insecurity (IPC Phase 4), with roughly 1.8 million children affected by acute malnutrition, according to OCHA figures cited in the report. The 2020-2023 drought is described by the World Bank as among the most severe in Somalia's history, and FAO reporting cited in the study links it to widespread livestock deaths, water shortages, displacement, and declining food availability, with cereal production projected to remain well below the long-term average due to continued rainfall deficits.

THE IRAN-ISRAEL CONFLICT

Although the conflict occurred outside Somalia, its effects reached Puntland through global energy markets, food prices, and maritime trade. Puntland imports most of its fuel, food, medicine, and construction materials, so disruptions to international shipping routes, including reduced vessel transits through the Strait of Hormuz, and rising global oil and food prices were transmitted into domestic markets. The report draws on UN Trade and Development data tracking crude oil prices alongside the FAO Food Price Index and World Bank commodity data to demonstrate that this transmission mechanism, rising energy costs feeding into rising food and fertilizer costs, operates even for economies with no direct involvement in the conflict itself.

FINDINGS

Respondent Profile

Of the 64 completed questionnaires, 49 respondents (76.6 percent) were male, and 15 (23.4 percent) were female. The report attributes this imbalance to the demographic composition of individuals typically engaged in economic activity, public administration, and business ownership in the study area, rather than to a sampling design constraint. Most respondents held more than five years of relevant professional experience, which the report treats as grounds for confidence in the reliability of their perceptions regarding the economic effects of insecurity and aid reduction. Business owners made up the largest respondent category, consistent with the study's purposive focus on stakeholders directly exposed to ISIS-linked economic disruption.

Economic Impact of ISIS Insurgency

Across every measured dimension, respondents reported that ISIS-linked insecurity has damaged Puntland's business environment. 85.9 percent either agreed or strongly agreed that terrorist attacks have negatively affected business operations. 87.5 percent agreed that violent extremism has reduced investor confidence. A large majority also agreed that extortion and illegal taxation have raised business costs, and that insurgent activity has disrupted trade and transportation routes.

93.8 percent of respondents agreed or strongly agreed that security threats have discouraged new business investment, and 81.3 percent agreed that violent extremism has negatively affected overall economic growth. 68.7 percent agreed that ISIS-linked insecurity has increased unemployment in Puntland, with 20.3 percent neutral and 11.0 percent disagreeing.

Table 1 summarizes the share of respondents agreeing or strongly agreeing with each statement measuring the economic effects of ISIS-linked insecurity, showing the consistency of the pattern across every indicator tested.

STATEMENT	AGREE / STRONGLY AGREE	NEUTRAL	DISAGREE / STRONGLY DISAGREE
Negatively affected business operations	85.9%	12.5%	1.6%
Reduced investor confidence	87.5%	4.7%	7.9%
Increased business costs via extortion / illegal taxation	84.4%	-	-
Disrupted trade and transportation routes	78.1%	15.6%	6.3%
Discouraged new business investment	93.8%	4.7%	1.6%
Negatively affected economic growth	81.3%	15.6%	3.1%
Increased unemployment	68.7%	20.3%	11.0%

Three features of this pattern deserve attention. First, the strongest consensus attaches to investment deterrence: at 93.8 percent agreement, the finding that security threats have discouraged new business investment recorded near-unanimity, with 48.4 percent strongly agreeing and 45.3 percent agreeing. The report reads this as evidence that insecurity operates most powerfully on forward-looking decisions, the investments not made, rather than only on existing operations. Second, the extortion finding carries a distinct mechanism: 39 respondents strongly agreed, and 15 agreed that extortion and illegal taxation have raised business costs, which the report connects to reduced profitability and discouraged entrepreneurship, consistent with external reporting that ISIS-Somalia finances its operations partly through extortion of businesses and financial institutions in Bossaso.

Third, the unemployment finding, while still a clear majority at 68.7 percent agreement, shows the weakest consensus of any indicator, with 20.3 percent neutral and 11.0 percent disagreeing. The report attributes rising unemployment to disrupted economic activity and constrained business operations, but the wider spread of responses on this item suggests respondents perceive employment effects less directly than they perceive effects on their own operations, costs, and investment decisions. On trade disruption, 34 respondents strongly agreed, and 16 agreed that insurgent activity has disrupted trade and transportation routes, which the report links to increased transport challenges and restricted movement of goods and people.

A Spearman's rank correlation between the ISIS insurgency variable and a composite economic vulnerability and resilience measure produced a coefficient of -0.456 ($p < 0.001$, $n = 64$), indicating a moderate, statistically significant, inverse relationship: as insurgency activity intensifies, measured economic resilience declines. The report frames this as evidence that insecurity diverts public resources from productive sectors toward security spending, weakening the capacity of businesses, households, and institutions to absorb further shocks.

The report interprets this relationship as consistent with a broader pattern in which increased insurgency activity is associated with reduced tourism and trade, higher government expenditure on security, and declining public confidence, all of which compound to leave communities less able to recover from economic shocks. It further notes that persistent insecurity discourages the kind of diversified livelihood investment that would otherwise help households and businesses absorb future disruption, meaning the economic effects of the insurgency are not confined to the period during which attacks occur but extend into reduced long-term adaptive capacity.

Impact of Foreign Aid Reduction on Economic Development

Analysis of Puntland government budget documents from 2020 through the 2026 projection shows external financing has remained a dominant share of the government's fiscal resources through the off-budget system.

YEAR	ESTIMATED GOVERNMENT BUDGET (USD)	ANNUAL FOREIGN REVENUE (USD)
2020	346,416,159	252,949,493
2021	341,861,037	247,775,457
2022	354,093,039	260,729,435
2023	376,699,825	279,487,297
2024	395,359,026	296,532,192
2025	466,840,762	364,840,342
2026 (projected)	315,783,344	198,171,044

Between 2020 and 2025, both the estimated government budget and annual foreign revenue rose steadily, with the budget growing from USD 346.4 million to USD 466.8 million and foreign revenue from USD 252.9 million to USD 364.8 million. The 2026 projection shows a sharp reversal: the estimated budget falls to USD 315.8 million and foreign revenue to USD 198.2 million. The report notes that while budget data alone cannot establish causality, the simultaneous decline in both figures is consistent with a contraction in the fiscal envelope driven by reduced external financing. As these are 2026 projections rather than closed-year actuals, they should be read as an early-warning signal rather than a confirmed outturn.

The report identifies direct implications for Puntland's fiscal sustainability: a smaller fiscal envelope constrains the government's capacity to finance development projects, maintain infrastructure, and expand investment in health, education, water, and social protection, while increasing pressure to strengthen domestic revenue mobilization and reprioritize expenditure.

Economic Impact of Recurrent Droughts

Livestock exports fluctuated over the study period, rising from 1,421,284 head in 2022 to 2,565,944 head in 2024 before declining to 2,284,915 head in 2025. The report notes that Puntland was unable to fully capitalize on favorable export conditions created by political instability in Sudan and export restrictions on Australian livestock, because recurrent drought constrained the volume and quality of animals available for export.

Drought effects extended across the livestock value chain, from herders to traders, transporters, veterinary services, and feed suppliers, reducing employment and slowing regional growth beyond the pastoral sector itself. At the household level, declining pastoral income reduced spending on food, healthcare, and education, and pushed families toward negative coping strategies, including asset sales, reduced food consumption, borrowing, and migration. At the fiscal level, the government redirected resources from development priorities toward emergency response, including approximately 4,000 water trucks and emergency food assistance, reducing the resources available for infrastructure and other productive investment.

Economic Implications of the Iran-Israel Conflict

Price data from the State Bank of Puntland show that fuel and several essential food commodities rose sharply during the conflict period.

	COMMODITY	PRICE CHANGE DURING CONFLICT PERIOD
01	Diesel	+31.25%
02	Petrol	+30.77%
03	Milk (Qamar)	+23%
04	Basmati rice (Xamse Bariis Hindi)	+20%
05	Dates (Timirta Saad)	+19%
06	Other selected food items	Moderate increases

The report traces a clear transmission chain from the conflict to Puntland's markets. Instability in international trade routes raised global fuel prices and the cost of shipping food from exporting countries. Importers passed these costs to wholesalers, wholesalers to retailers, and retailers to consumers. The result was that households spent a growing share of income on basic food, reducing their capacity to meet other essential needs including healthcare, education, and housing, with the burden falling most heavily on low-income households whose purchasing power was already declining.

The fuel price increases carried effects well beyond transport. Because fuel enters nearly every economic activity, higher fuel costs raised the cost of moving goods, operating businesses, generating electricity, and running public transport. Traders, transport operators, construction firms, and small businesses absorbed higher operating expenses and, to remain viable, raised the prices of their own goods and services. This spread inflationary pressure across the economy and dampened consumer demand as households adjusted spending to rising living costs.

Global data cited in the report show crude oil and food price indices moving together over time, reflecting the role of energy costs in food production, processing, and transport. Rising natural gas prices were similarly linked to higher fertilizer costs, raising production costs for Puntland's crop farmers and adding further pressure to food prices. Reduced vessel transits through the Strait of Hormuz during the conflict period increased freight charges, extended delivery times, and raised marine insurance costs, all of which fed into higher prices for imported fuel, food, medicine, and construction materials.

DISCUSSION

The study's central argument is that these four shocks do not operate independently; they compound one another through shared transmission channels. Insecurity diverts government spending toward security operations and away from productive investment. Reduced foreign aid removes an alternative source of financing at precisely the moment security spending is rising. Drought erodes the livestock sector that forms the base of household income and government export revenue. Global fuel and food price increases raise the cost of doing business and the cost of living at the same time that household income and government revenue are both under pressure from the other three shocks. The report frames this as a reinforcing cycle: each shock narrows the fiscal and economic space available to absorb the others.

Theoretical Grounding

Political Economy Theory holds that economic performance is shaped not only by market forces but by political decisions, governance structures, and the distribution of power. It explains why the Puntland government's response to insecurity involves diverting funds from infrastructure, education, and healthcare toward counterterrorism operations, and why reductions in foreign aid limit the government's capacity to finance development and public services.

Conflict Economics Theory holds that conflict, violence, and political instability impose direct economic costs by destroying infrastructure, disrupting production, and diverting resources from productive sectors to security spending. It explains why businesses operating under insecurity face higher costs, reduced market access, and disrupted supply chains, and why terrorist activity in particular damages infrastructure, disrupts trade routes, and weakens investor confidence.

Dependency Theory holds that developing economies become structurally dependent on wealthier, capital-controlling economies through unequal financial and trade relationships, leaving peripheral economies exposed to decisions made outside their control. It explains why Puntland's reliance on donor-funded development leaves its development agenda vulnerable to shifts in international aid commitments that Puntland itself has no ability to influence.

The report situates these findings within three theoretical frameworks. Political Economy Theory is used to explain how insecurity and reduced aid force the government to reallocate resources away from infrastructure, education, and healthcare toward security and emergency response, and is applied as well to the drought findings, where redirection of public funds toward emergency response is treated as a political-economy resource allocation decision rather than a purely climatic outcome. Conflict Economics Theory is used to explain why insurgent activity raises uncertainty, discourages investment, and increases the cost of doing business, consistent with the study's own findings and with prior research on terrorism's effect on Somali GDP growth and foreign direct investment. Dependency Theory is used to explain why heavy reliance on external financing leaves Puntland's development agenda exposed to shifts in donor policy that are entirely outside its control.

The report cross-references its ISIS findings against prior empirical work on Somalia, including studies using Auto Regressive Distributed Lag modeling on terrorism, foreign direct investment, and growth between 2006 and 2024, and separate research on the effect of armed conflict on Somali GDP growth between 1997 and 2022. Both are cited as reaching conclusions consistent with the present study's finding that insecurity discourages investment and reduces growth, though neither prior study is specific to Puntland nor to the ISIS-Somalia insurgency in particular; the alignment is thematic rather than a direct replication. On aid reduction, the report cites consistent findings from national-level analyses describing weakened public service delivery, delayed development projects, and fiscal pressure resulting from declining donor support to Somalia as a whole. On drought, the report's findings are described as consistent with World Bank characterizations of the 2020 to 2023 drought as among the most severe in Somalia's history.

The report's risk matrix ranks the relative severity of each threat to Puntland's economic resilience.

RISK	PROBABILITY	ECONOMIC IMPACT	OVERALL RISK
ISIS insurgency and violent extremism	High	Very High	Critical
Reduction in foreign aid	High	High	Critical
Recurrent drought	Very High	Very High	Critical
Iran-Israel regional conflict	Medium	Medium-High	High
Global inflation	High	Medium	High
Climate change	Very High	Very High	Critical

Recurrent drought, ISIS insurgency, and reductions in foreign aid are rated as the three most critical risks, on the basis of both high likelihood of occurrence and severe economic consequences. The Iran-Israel conflict and global inflation are rated as high but somewhat lower risk, reflecting their more indirect and externally driven transmission into Puntland's economy.

Cross-Cutting Themes

Several themes recur across all four shocks rather than belonging to any single one. Vulnerability and resilience are treated throughout as two sides of the same measure: the same indicators used to show how exposed Puntland's economy is to a given shock (reduced investment, declining revenue, weakened livelihoods) are also used to show how much capacity remains to absorb the next one. Governance recurs as both a casualty and a buffer: insecurity and aid volatility strain the government's fiscal position, yet the report also credits continued institutional functioning, timely payment of security personnel, and sustained infrastructure investment as evidence that Puntland's governance structures have so far absorbed shocks that might otherwise have caused deeper disruption.

Humanitarian response and long-term development compete for the same resources throughout the report rather than operating as separate tracks. Drought response drew close to 4,000 water trucks and emergency food assistance away from planned development spending, and reduced foreign aid is described as constraining both humanitarian and development financing simultaneously.

Private sector adaptation appears mainly through the lens of cost absorption: businesses facing extortion, disrupted trade routes, and rising fuel and import costs are shown passing costs to consumers rather than absorbing them, which connects the ISIS and Iran-Israel conflict findings to the same inflationary pressure on households. Employment, food security, and market performance are each shown declining through a different mechanism: insecurity-driven business contraction, drought-driven livestock loss, and import-price inflation, but converge on the same outcome: reduced household purchasing power and rising reliance on coping strategies such as asset sales and reduced food consumption.

POLICY IMPLICATIONS

Taken together, the findings point to a set of practical implications for decision-makers that go beyond the report's own recommendation list. These follow directly from the evidence presented rather than introducing new analysis.

- Fiscal planning built around the assumption of steadily rising foreign revenue is no longer defensible given the projected 2026 reversal; contingency planning for a lower and less predictable aid envelope is warranted.

- Security expenditure and development expenditure are in direct competition for the same constrained fiscal space; resourcing decisions in one domain have measurable opportunity costs in the other.
- The livestock sector's exposure to recurrent drought limits Puntland's ability to capture favorable export conditions created by disruptions elsewhere in regional livestock markets, meaning climate resilience investment has a direct trade and revenue payoff, not only a humanitarian one.
- Puntland's exposure to imported fuel and food prices means domestic inflation is substantially driven by events outside Somalia's control, which argues for import diversification and strengthened local production capacity as inflation-management tools, alongside monetary and fiscal measures.
- Because reliable field-level evidence exists only for the ISIS component, policymakers should treat the aid-reduction, drought, and Iran-Israel findings as well-supported by secondary and administrative data but not yet corroborated by field-level household or business survey evidence.
- The livestock export data show that market opportunity and structural vulnerability can arrive at the same time; policy responses built only around seizing favorable trade windows, without addressing the drought constraints on production, will continue to leave export potential unrealized.
- Because the report's recommendations are addressed almost entirely to the Puntland government, with only a single item directed at development partners and nonspecific to humanitarian organizations, financial institutions, or communities, translating the study into a multi-stakeholder resilience strategy will require follow-on consultation with those actors rather than extraction from this report alone.

LESSONS LEARNED

- Puntland's institutions demonstrated meaningful continuity through overlapping shocks: the government maintained timely payment of security personnel, sustained road infrastructure investment, and kept public institutions functioning despite simultaneous security, fiscal, and climate pressures.
- Where market conditions were favorable, as with rising regional demand for Somali livestock following disruptions in Sudan and Australia, Puntland's ability to capitalize on the opportunity was still constrained by an underlying structural vulnerability, in this case drought-driven livestock losses, showing that opportunity and vulnerability operate on the same terrain.
- The absence of dedicated field data on foreign aid reduction, drought, and the Iran-Israel conflict, relative to the ISIS component, is itself a lesson for future research design: multi-shock studies of this kind benefit from parity in data collection effort across all shocks being compared, not concentration on one.
- Budget-based fiscal analysis is informative on trend direction but limited on causality; the report itself notes that the simultaneous decline in projected 2026 budget and foreign revenue figures is a correlated pattern, not a demonstrated causal chain, which is a useful discipline to carry into future fiscal resilience analysis.
- Perception-based Likert data, while useful for capturing how strongly a shock is felt by those exposed to it, measures sentiment rather than verified transaction-level impact; future iterations of this research would be strengthened by pairing perception data with objective indicators such as business registration, revenue, or trade volume records where available.

CONCLUSIONS

On Violent Extremism (ISIS)

Violent extremism has had a severe negative effect on economic activity in Puntland. Terrorist attacks, extortion, illegal taxation, and insecurity along trade and transport routes have disrupted business operations, reduced investor confidence, increased operating costs, and discouraged investment. The study identifies insecurity as one of the most significant barriers to sustainable economic progress in Puntland.

On Foreign Aid Reduction

Reduced foreign aid poses a major threat to Puntland's economic development. Continued dependence on external assistance for infrastructure, humanitarian support, health, and education leaves the government exposed to donor policy shifts outside its control, creating financing gaps that delay development projects and increase pressure on domestic revenue sources.

On Recurrent Droughts

Recurrent drought has significantly weakened Puntland's economy through livestock losses, reduced household income, lower export earnings, worsening food insecurity, and diversion of government resources from development to emergency response. Climate-related shocks remain a persistent threat to livelihoods, productivity, and resilience.

On the Iran-Israel Conflict

The Iran-Israel conflict had indirect but material economic effects on Puntland through rising fuel prices and higher costs for imported goods. Global geopolitical tensions were transmitted into the local economy through inflation, higher transport costs, and increased living expenses, affecting households, traders, and transport operators.

Overall Conclusion

Puntland's economy is shaped by multiple interconnected shocks that reinforce one another and weaken economic performance. Violent extremism, declining foreign aid, recurrent droughts, and global geopolitical conflicts together reduce investment, disrupt trade, increase public expenditure, weaken livelihoods, and slow growth. Sustainable recovery requires a comprehensive approach combining security improvement, climate resilience, fiscal reform, economic diversification, and reduced dependence on external assistance.

STRATEGIC RECOMMENDATIONS

The report frames its recommendations against a backdrop of documented institutional resilience rather than only documented damage. Despite overlapping shocks, insecurity, recurrent drought, reduced foreign aid, regional conflict, and global economic pressure, the government continued to pay security personnel on time, invest in road infrastructure, maintain the functioning of public institutions, and support a growing private sector. The report treats this as a foundation to build on rather than a reason for complacency.

The study groups its recommendations under three thematic headings: Economic Development and Resilience, Governance and Institutional Development, and Security and Stability. Nearly all are addressed to the Puntland government, reflecting the study's sub-national focus. To align with a stakeholder-based presentation, the same recommendations are regrouped below by the actor best positioned to act on them. Where the report does not specify measures for a given stakeholder group, this is noted rather than filled in.

Government of Puntland

This is where the study places nearly all of its operational recommendations. They fall into three functional clusters: measures to build fiscal self-sufficiency and diversify the productive base of the economy; measures to strengthen the institutions that deliver services and maintain public trust; and measures to sustain the security conditions the report identifies as a precondition for investment and trade.

- Strengthen domestic revenue mobilization by expanding the tax base, improving tax administration, and strengthening financial accountability, to reduce dependence on foreign aid while maintaining fiscal sustainability.
- Sustain investment in roads, ports, and public infrastructure to support trade, market access, and private sector growth.
- Increase investment in productive sectors, including fisheries, livestock, agriculture, wells, and dams, to strengthen food security, rural livelihoods, and economic diversification.
- Prioritize the blue economy, including fisheries development, marine resources, and coastal activities, as a major source of growth and employment.
- Expand and modernize ports to increase trade capacity, improve logistics, and generate additional government revenue.
- Establish a Puntland Development Fund and a Puntland Development Bank to finance strategic projects and provide credit facilities and investment support to businesses and entrepreneurs.
- Develop coastal tourism sites and explore marine energy opportunities to diversify the economy and future energy supply.
- Build climate and economic resilience through water infrastructure, drought preparedness, water harvesting, boreholes, irrigation, livestock health services, rangeland management, and livelihood diversification.
- Continue strengthening public institutions to improve transparency, accountability, and service delivery, and maintain effective government operations despite economic and security pressure.
- Continue financing security and intelligence systems, improving intelligence sharing, community policing, and early warning systems to protect businesses, trade routes, and communities from insecurity.

Federal Government of Somalia

The study does not specify recommendations directed at the Federal Government of Somalia as distinct from the Puntland administration. Its fiscal and revenue-diversification themes are clearly relevant to federal-level aid coordination and macro-fiscal policy, particularly given the report's framing that foreign assistance exceeds federal domestic revenue nationally; however, attributing specific federal-level actions to the report would go beyond what it states. Coordination between Puntland and federal authorities on donor engagement and domestic revenue policy is implied by the study's dependency framing but not addressed as a distinct recommendation.

Development Partners

Recognize and leverage Puntland's demonstrated institutional resilience by prioritizing productive, longer-term investments that strengthen economic resilience, rather than concentrating support on short-term humanitarian assistance alone.

Private Sector

- Engage in private sector development supported by expanded access to finance, simplified business regulation, and investment incentives, particularly in livestock, fisheries, agriculture, manufacturing, and digital services.
- Collaborate with security institutions through information sharing, threat reporting, and participation in peacebuilding initiatives.
- Engage in public-private partnerships to attract investment into sectors capable of generating sustainable domestic revenue and employment.

Financial Institutions

The report's principal financial-sector recommendation is directed at government: the establishment of a Puntland Development Bank to provide credit facilities, investment support, and financial

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