

**AID IN THE CONTEXT OF FRAGILE STATES: THE CASE OF SOMALIA**

**By**

**Hana Hersi**

**THESIS**

Submitted to  
KDI School of Public Policy and Management in Partial fulfillment of the requirements  
for the degree of

**MASTER OF DEVELOPMENT POLICY**

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## **ABSTRACT**

### **AID IN THE CONTEXT OF FRAGILE STATES: THE CASE OF SOMALIA**

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From 1980 to 2013, Somalia received more than \$14 billion in foreign aid and yet managed to get listed among the most fragile states in the world. With Somalia's government lack of capabilities and expertise in handling such huge aid flows, issues of accountability arise, as well as concerns of whether foreign aid has by any measures contributed to improving the state's peace, stability, and governance.

Statistical analysis was conducted using quantitative, secondary data obtained from the World Bank to observe the relationship between foreign aid, governance, and institutions in Somalia. Time series data of official aid to Somalia and governance indicators such as political instability and absence of violence, government effectiveness, rule of law and control of corruption from the periods 1996 to 2013 was examined.

The results show that there is a statistically significant negative relationship between foreign aid (development and humanitarian aid) and governance indicators (political stability, rule of law and government effectiveness). In addition, there is no statistically significant evidence that there is a relationship between foreign and control of corruption indicator. By separately testing the relationship between development aid and governance

indicators, the results show that there is a statistically significant negative relationship between development aid and governance indicators (political stability, rule of law and government effectiveness). Moreover, there is no statistically significant evidence that there is a relationship between development aid and control of corruption indicator.

*Dedicated To My Family.*

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## I. INTRODUCTION

The debate of foreign aid to fragile state is a never ending one, with some questioning its effectiveness while others boasting about its effect in reducing poverty and contribution to economic growth. Burnside and Dollar (1997, 2000) found that aid might be most effective in countries that possess sound policies that promote economic growth while Collier and Dollar (2001, 2002) put an emphasis on the selectivity of aid in which donor countries should take into consideration the recipient government's existing policies and institutional capabilities when allocating aid to maximize the effectiveness.

In Somalia's case, however, to ensure aid effectiveness, unconventional methods must be developed. As a fragile state, Somalia's institutions are generally weak and unable to formulate the development policies necessary to promote economic growth (OECD, 2008). In addition, the international community constantly faces the predicament of finding suitable measures of allocating aid more effectively. Hence, allocation of foreign aid to fragile states requires closer attention as conventional ways seems to fail, raising the need for developing new measures that specifically target the fragile states context.

### **Statement of the Problem**

From 1980 to 2013, Somalia received more than \$14 billion in foreign aid and yet managed to get listed among the most fragile states in the world. With the civil war in Somalia lasting for more than two decades, numerous lives and properties were lost, thousands of Somalis displaced, and large numbers of refugee camps started to increase in neighboring countries. The international community has taken it upon its shoulders to

provide humanitarian assistance to those affected by the civil war and has continued to provide aid until this present time. Alongside humanitarian aid, development aid was also provided for the rebuilding process of the shattered government institutions as well as rehabilitation of the infrastructure affected by the war. The aftermath of the war, however, left Somalia's government unable to perform its duties of providing public services and expanding its authority within and outside its borders, thus leading the UN to fill that vacuum by assigning African Union Mission to Somalia (AMISOM) forces to take on that responsibility.

With Somalia's government lack of capabilities and expertise in handling such huge aid flows, issues of accountability arise, as well as concerns of whether foreign aid has by any measures contributed to improving the state's peace, stability, and governance.

One might ask, why does the international community continue to pour aid into what is considered to be a bottomless sinkhole where foreign aid is not being properly handled, improvement in governance is not being recorded, and yet positive results are expected?

### **Purpose of the Study**

The overall purpose of this study is to review and examine the effect of foreign aid in Somalia in improving governance, strengthening institutions as well as curtailing the political, economic and social issues that Somalia has been facing for the last 20 years.

### **Research Questions and Hypothesis**

The main questions that this paper is trying to answer are as follows:

1. Has foreign aid promoted improved governance in Somalia or hindered it?

2. How can aid be provided to Somalia to strengthen state stability and governance?

The hypotheses proposed in this study are:

1. Foreign Aid to Somalia has not contributed to the improvement of the state's political stability.
2. Substantial amount of foreign aid delivered over a long period of time has had a significant negative effect on Somalia's governance and institutions.

### **Structure of the Study**

After reviewing scholarly views concerning issues of fragile states and foreign aid as a whole and Somalia's case in-depth, statistical data from the World Bank will be analyzed in order to determine whether foreign aid to Somalia has significantly contributed to improved governance and strengthened institutions. Finally, the study will compile research findings and make further recommendations on suitable mechanisms of extending foreign aid effectively to fragile states, particularly Somalia.

## II. LITERATURE REVIEW

The main purpose of this chapter is to review and compare different theories and concepts regarding the subject of fragile states and aid delivered to fragile states. This chapter will attempt to define what fragile states are all about; identify different types of foreign aid and contrast opinions regarding the effectiveness of aid to fragile states.

### **Foreign Aid**

Lancaster (2007) defines foreign aid as a “voluntary transfer of public resources, from a government to another independent government, to a non-governmental organization, or to an international organization with at least a 25 percent grant element, one goal of which is to better the human condition in the country receiving the aid”. According to Lancaster, the main purpose of aid is either “diplomatic, developmental, humanitarian relief or commercial”. On the other hand, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) defines the type of aid they provide, known as Official Development Assistance (ODA), to consist of “flows to developing countries and multilateral institutions which are undertaken by the official sector” (OECD, 2006). These flows are mainly for development purposes by which a developed donor country provides financial assistance to a developing country in the form of grants or loans.

Different types of aid depend on the context that it is being provided for. Aid might be bilateral, where a certain government extends financial assistance to another government, or multilateral, where financial assistance is extended by major international development organizations such as World Bank, IMF or regional development banks to

governments of developing countries. The intention and the conditions of such financial assistance might vary between urgent humanitarian aid to development aid. Moreover, the conditions of offering such assistance might range between low-interest loans, gifts or grants (OECD, 2006).

According to DAC, foreign aid can be classified into two major categories, humanitarian and development aid. Humanitarian aid is mostly provided by international aid organizations in times of sudden or recurring disasters. Aid provided in such situations might include supplementing vital assistance such as food, clean water, shelter, and medical services or in the form of offering protection of human lives. Aid agencies that operate under these situations are responsible for providing immediate relief to the affected as well as ensuring their safety. Moreover, humanitarian aid is considered to be in the form of a grant and is not subject to repayment. Development aid, on the other hand, is a form of aid provided by the national government of OECD member countries to developing and least developing countries in an attempt to alleviate poverty and promote economic development. Development aid can be in the form of grants or loans with low-interest rates. Moreover, development aid can be both bilateral and multilateral in the sense that an OECD member's government provides financial assistance to another non OECD member government or indirectly extends financial assistance through international development organizations.

## **Fragile States**

There is no universally agreed definition of the term fragile states. Some international development organizations (e.g. OECD) define fragile states as a state's failure to perform its fundamental duties of providing basic public services to its people and to sustain peace, security, and justice within and along its territories. According to OECD (2008), fragile states are defined to be states "unable to meet [their] population's expectations or manage changes in expectations and capacity through the political process". In addition, USAID (2005) narrows down its definition of fragile states by emphasizing effectiveness and legitimacy in fragile states from political, security, economic and social aspects<sup>1</sup>.

The Department of International Development (DFID) defines fragile states as "those where the government cannot or will not deliver core functions to the majority of its people, including the poor" (DFID, 2005). Moreover, the Center for Research on Inequality and Social Exclusion (CRISE) defines fragile states as "failing, or at risk of failing with respect to authority, comprehensive service entitlement to legitimacy" (CRISE, 2009). In other words, it appears that diminishing state legitimacy is the major indicator of defining state fragility. Such states have failed to deliver basic public services to its citizens, establish mutual trust with civil society, and maintain sound and strong institutions.

Furthermore, some researchers oppose the notion of states' political "will" that major international development organizations place great emphasis and suggest to focus more

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<sup>1</sup> Means of measuring effectiveness and legitimacy are solely based on quantitative methods such as interviews, polls and survey's in which issues of reliability often arise.

on states' institutions rather than political "will". According to Engberg-perdersen, Andersen and Stepputat (2008), state fragility is "institutional instability undermining the predictability, transparency and accountability of the public decision-making process and the provision of security and social services to the population" (Engberg-pedersen et al., 2008). In addition, Stewart and Brown (2009) identify fragile states as states that have failed or on verge of failing in terms of: i) authority failure; ii) service failure; and iii) legitimacy failure. The combination of these failures is said to be an indicator determining the degree of state failure that a country might face.

Different international development organizations have their own measures in which they develop certain categories to assess the degree of state fragility (either fragile or failed) and its nature. These categories are often met with criticism as they mainly focus on contextualizing different types of states into limited categories. Planning interventions by using those categories might not be helpful as they fail to capture different degrees of state fragility. However, these categories serve as a guide to better understand the context of fragility within a state. According to OECD (2012), fragile states are classified into four categories:

States Fragility	Indication
Post conflict	A state coming out of conflict situation
Deteriorating governance environment	A state facing risk of weakened governance
Gradual improvement	A state in the process of recuperating and improving governance
prolonged crisis	A state where the degree of fragility is alarming thus paving the way for complete state failure.

Source: OECD (2012), Managing Risks in Fragile and Transitional Contexts

Meanwhile, DFID (2005) categorizes fragile states into four different environments: i) "good performers" where states possess strong capabilities and political will; ii) "weak



but willing” where a governments’ lack of capacity hinders its ability to implement relevant policies; iii) “strong but unresponsive” where states are capable of somewhat meeting desired development agendas and; iv) “weak-weak” where the state lacks the desired political will and capacity.

To wrap up, previous studies have failed to produce a unanimous definition of fragile states, with some stressing on a state’s failure to deliver basic public services while others emphasize on the lack of political legitimacy and different degrees of state failure in which fragile states might embroil in. It is to be noted that once these definitions are linked together, a broad definition capturing different aspects of fragile states can be developed.

### **Aid Effectiveness to Fragile States**

Literature on aid effectiveness in fragile states is far from abundant compared to the ample literature on aid effectiveness for all foreign aid recipients.

McGillvary (2006) discusses issues related to aid allocation to fragile states and criticizes donor’s failure to coordinate and harmonize aid, where some fragile states end up receiving less aid. He also points out the need for donors to develop certain mechanisms in which aid will be allocated more effectively in fragile states.

On the other hand, Kasserri and Though (2014) demonstrate in their empirical findings that “foreign aid has an influence on development in fragile states”, citing the importance of state and donor programming priorities and policy instruments used to improve aid effectiveness in fragile states. In addition, the authors state that foreign aid is considered to be more effective in fragile states when it is in the form of “budget support”,

especially investing in infrastructure and strengthening government capacity to deliver public services.

Gupta et al. (2005), claims that joint efforts of fragile states and donors are essential in utilizing aid more effectively once states create a stable macroeconomic environment and sound financial institutions that are capable of determining the amount and duration required to spend aid while donors assist those states in strengthening their financial institutions. In addition, Browne (2007) claims that aid to fragile states based on donor's political agendas, where aid is provided at the "wrong time" and with "wrong attitudes", tends to eventually hinder the process of development in fragile states. Such approaches by some donors took their toll on fragile states where aid has failed to serve its ultimate purpose. Furthermore, Browne suggests that donors need to display strong commitment and eliminate barriers to development in order to make aid more effective.

The Department for International Development (DFID) states that, in order for aid to be effective in fragile states, certain prerequisites must take place, for example, conducting a prior analysis of the political situation, assessing the cause of state fragility, and developing early warning and response mechanism to combat instability. Also, the report highlights the significance of providing aid in reinforcing state's capacity and institutions to the extent of "good enough governance" where a fragile state would be at least capable of delivering basic public services to its citizens (DFID, 2005).

Meanwhile, OECD (2007) refers to the importance of principles for good international engagement in fragile states and situations in facing recurring challenges of aid effectiveness in fragile states. The principles emphasize adopting comprehensive approaches to aid while taking political commitment in fragile states into consideration.

The principle notes the significance of a prior analysis of the political situation in a fragile state, then developing appropriate aid allocation mechanisms that are devoted to ensuring peace and stability in fragile states.

In recent years, much criticism and accusation have been channeled towards donors for failing to adopt successful and applicable principles that specifically target fragile states. Some emphasize on the importance of strengthening a state's capacity and the role of development partners in deciding and maintaining a harmonized and holistic approach for aid to be effective. Others contend that development agenda's for fragile states are over-shadowed by security priorities and the war on terror rather than addressing essential social and economic issues.

Lately, discussions regarding the improvement of aid effectiveness have been taking place with some suggesting to embrace a holistic approach for aid to be effective by simultaneously addressing social, economic and security priorities and adopt mechanisms that enhance donor's accountability towards recipient fragile states. On the other hand, others place emphasis on developing strategies that permit states to effectively participate and exercise a sense of ownership for better development outcomes.

Based on the above literature, it is difficult to deny the fact that foreign aid is indispensable to fragile states, yet, theories differ in which means and measures can aid be most effective in fragile states. Harmonization and coordination of aid efforts by the donor community are considered to be essential in fragile states while setting priorities for development programs and policy instruments that are necessary to make aid more effective are taken into consideration. Also, it is recommended that foreign aid would be most effective when donors and fragile states take the initiative of working together to

create a suitable macroeconomic environment and to support financial institutions. Last but not least, the need for donor's strong commitment and distancing politics from aid is highly regarded in the case of fragile states. Developing a generalized template for all foreign aid recipients might be unsuitable for fragile states as they require special attention, in which approaches to aid delivery should be designed to the country context.

### **Aid Effectiveness in Somalia**

A review of the literature indicates that it is debatable whether foreign aid has been successful in Somalia. Being a recipient of foreign aid for more than two decades, Somalia's government has clearly failed to demonstrate full commitment to tackling issues of security, governance, transparency, and accountability. It is an undeniable fact that foreign aid has been helpful in battling the effects of recurring droughts and famine in Somalia, but it is also to be noted that serious incidents of mishandling foreign aid funds have been frequently reported in recent years.

Menkhaus (1997), describes foreign aid to Somalia of being "notoriously unsuccessful", by recalling the "massive armed humanitarian intervention" that took place in Somalia in 1992 to 1995, that resulted in the emergence of a corrupt and "repressive state". He also collectively blames UN agencies, bilateral donors, NGOs and local leaders for their respective roles of delaying the response to Somalia's famine due to their inflexible red tape measures, failing to align foreign aid with the needs and priorities of the country, fueling conflicts and associating with local militias and diverting foreign aid for personal benefits. These above-mentioned actors, according to Menkhuse, are collectively responsible for aid ineffectiveness in Somalia.

According to International Crisis Group (2011), foreign aid to Somalia has been widely misused by government officials, thus accusing the former Transitional Federal Government (TFG) for failing to manage foreign aid more effectively. In addition, a World Bank report disclosed that large amounts of foreign aid received by the Transitional Government “have not been accounted for” indicating the possibility of corruption being among the probable causes. Joakim Gundel in 2009 reported that the Somali government understated the amount of revenue it collected claiming that they only generated \$11 million while auditors estimated expected revenue to mount up to \$94 million (VoA, 2012). This implies that management of public funds in Somalia is less transparent and needs to be urgently addressed.

Furthermore, it is stated that the consecutive Somali governments in the periods of 2000-2011 received bilateral aid amounting to \$308 million, mostly donated by Arab Countries. Approximately “two-thirds” of that aid has been reported to have disappeared (The East African, 2012). Such an incident led the UK Foreign Minister, William Hague, to declare that “an international board to oversee the distribution of aid funds needed to be established urgently” (BBC, 2012). The success of this international initiative might be the solution for Somalia’s weak transparency issues.

Menkhaus (2014) describes Somalia as a “graveyard of foreign aid” where the international community has (for more than 20 years) dedicated enormous amounts of funds for the purpose of institution-building in Somalia, yet the country is still considered to be one of the most fragile states in the world. Menkhaus demonstrates that “the inverse relationship between level of aid and institutional building in Somali-inhabited areas of the Horn gives reason for a pause”, taking into account, the most fragile region of the

horn, the capital city Mogadishu, which has been receiving large amount of foreign aid compared to its northern counterparts (e.g., Somaliland and Puntland), has exhibited serious signs of discrepancy between amount of foreign aid received and expected outcome. This shows that large amounts of foreign aid accompanied with spoilers and corruption effects in Somalia can “inadvertently fuel the very impulse to de-institutionalize the state that the aid is setting out to fix” (Menkhause, 2014).

Hammond and Lee (2012) examine the obstacles that humanitarian action is faced with in Somalia by emphasizing “humanitarian space” and the role that politics plays in such space. The authors stress that politicization of aid had an adverse effect on the mutual trust that existed between stakeholders, citizens, and aid personnel serving in conflict regions thus further narrowing the humanitarian space in Somalia. Nevertheless, humanitarian aid has been noted to be mostly provided in non-conflict zones in Somalia where access to such zones and reaching out to vulnerable citizens is considered to be possible compared to war-affected zones that suffer from problems of famine, internal displacement, and recurring droughts, making it more difficult and dangerous for aid personnel to extend humanitarian assistance.

To sum up, the literature on aid to Somalia is limited. Nevertheless, the existing literature acknowledges that foreign aid to Somalia has slightly contributed to the institutional building in certain parts of Somalia and assisted vulnerable citizens, mostly in non-conflict areas. However, foreign aid in Somalia tends to contribute to the deterioration of institutions and the emergence of issues of lack of accountability and transparency, which can only be battled with the establishment of an independent entity mandated to manage the distribution of aid funds more effectively.

### **III. SOMALIA AS A FRAGILE STATE**

#### **Historical Background**

The end of the 21st century witnessed an outbreak of a barbarous civil war in Somalia. The war was a result of the uprising of armed rebel groups against President Siad Barre's regime during the late 1980s. In 1991, the clan-based armed groups succeeded in overthrowing the regime, leading to continued power struggle, especially in the south, between armed rivalries which lasted for decades.

One of the main outcomes of the civil war was the creation of separate governance parts within Somalia where political divisions based on 'clan-ism' took place. On May 18, 1991, the Somali National Movement (SNM) held a grand conference in the city of Buroa where the northern clans announced Somaliland's secession from the unity with Somalia, declaring the independent Republic of Somaliland. The declaration shielded people from the continuing war and famine in the south, making them focus on the state rebuilding process. Today, the autonomous state of Somaliland possess the prerequisites of a sovereign state, with a democratically elected government capable of maintaining security and providing public services within and along its borders, imposing taxes, issuing its own currency and passport as well as formulating political, economic and social policies. Such an achievement is attributed to the collective efforts of the citizens of Somaliland and the diaspora community which assisted in laying the foundations of a government of a national unity without the assistance of the international community.

Though Somaliland efforts of sustaining peace and development have been acknowledged by the international community, Somaliland is deprived of international recognition as a sovereign state and lacks international legal status for the past 24 years.

Unlike Somaliland, the Puntland State of Somalia is a non-secessionist state that doesn't pursue independence from Somalia and complies with the federal system of government. The Puntland State of Somalia is a self-governing unit in northeastern Somalia, established in 1998 after the continuous discontent of the northeastern clans with the lack of progress of the national government in the south.

According to a recent OECD report on fragile states, Somalia is considered to be one of the most fragile states in the world, ranking the lowest in terms of governance indicators such as voice and accountability, political stability and absences of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. In 2011, Somalia as a whole received more than \$1 billion in foreign aid amid the severe famine that affected the lives and properties of more than one million people (World Bank, 2015). For decades, Somalia continued to receive generous amounts of foreign aid. Nonetheless, significant progress toward strengthening governance, maintaining the state's peace and stability, or promoting economic development has not been made.

In the 1990s, numerous attempts were made by the international community to assist Somalia in establishing a functional legitimate state. One of these attempts was initiated by the United Nations Operations in Somalia (UNOSOM). Unfortunately, their attempt at bringing together the conflicting factions to determine and lay the foundations of a government of national unity has failed. The Nairobi peace talks in 2004 resulted in the establishment of the Transitional Federal Government (TFG) which was shortly immersed in constant internal conflicts and splits, thus paving the way for the emergence of the infamous Islamic Court Union (ICU), a group of Sharia-based courts that formed a rivaling parallel administration to that of the TFG. The ICU became more powerful than



the TFG.

With the patronage of some African nations, political dialogues between the ICU and TFG to share power took place in Khartoum, Sudan, which eventually, after several rounds, resulted in the election of the Commander in Chief of ICU, Sheikh Sharif, to become the President of Somalia's TFG. In 2012, the TFG mandate came to an end, paving the way for the start of the Federal Government of Somalia (FGS) and the election or perhaps the "selection" of a new president took place. After several rounds of voting, legislators elected current President Hassan Sheikh, to become the first President of Federal Government of Somalia, thus ending decades of political vacuum in Somalia. Even with the formation of a somewhat "legitimate" Somali government, the OECD continues to list Somalia as a fragile state, mainly due to its poor scores of governance indicators and extreme vulnerability to shocks and violence.

With reference to the OECD typology described above (page 7), Somalia's state of fragility can be categorized as a prolonged crisis in which the degree of fragility is alarming, paving the way for a complete state failure.

### **History of Aid to Somalia**

After the end of the British and Italian colonial rule in the north and south of Somalia, the Democratic Republic of Somalia was formed on July 1, 1960, with the unification of the former British Somaliland and Italian Somaliland. With an estimated population of 3 million in the 1960's, Somalia's income per capita was about \$50. (International Bank for Reconstruction and Development, 1969)

Somalia, one of the poorest countries in the world, also happens to be one of the

major recipients of foreign aid. In the periods between the 1970s and 1980s, Somalia's ODA per capita was estimated to be around \$15. (ibid.)

**Table 1-1 | Total Official Development Assistance to Somalia (1980-1990)**

Year	ODA
1980	479,960,000
1981	382,380,000
1982	473,880,000
1983	341,030,000
1984	347,590,000
1985	350,710,000
1986	506,500,000
1987	587,070,000
1988	431,720,000
1989	419,150,000
1990	514,810,000

Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>

Table 1-1 illustrates official aid received by Somalia in the periods between 1980 and 1990. One can easily identify that official aid has decreased in the first half of 1980s and bounced back in the later half.

It is important to note that foreign aid to Somalia has been fragmented in terms of quantity and magnitude. According to the German Planning and Economic Group in Somalia (1969), by the end of the 1960s, Somalia had received S.Sh1.62 million in development aid which is estimated to be 85% of the total aid in the government budget. In addition, the largest donor in the periods between 1963 and 1969 was the U.S.S.R, donating almost 20% of the total development aid received by Somalia. (German Planning and Economic Advisory Group, 1969)

Aid to Somalia is described to have possessed several forms. First, countries that enjoyed close ties with Somalia have provided development aid in the forms of grants. An exceptional case is the aid given by China, which can be described as tied aid. Chinese

donors demanded certain prerequisites in exchange to implementing development projects such as reconstruction and rehabilitation of vital infrastructures, i.e., Hargeisa city's water supply. Second, under multilateral aid programs, technical assistance was extensively provided to support government institutions and training of public officials. Third, concessional loans with favorable low-interest rates were provided by the World Bank and USAID. Fourth, Russia's assistance to Somalia was partially in the form of short-term to mid-term commercial loans with low-interest rates. Finally, humanitarian assistance, mostly food aid, was provided by the United States through World Food Program (O. Mehmet, 1971).

Development aid delivered by international agencies to Somalia ranged between grants, loans, and technical assistance. It is worth mentioning that in the 1960s, multilateral development aid in Somalia by the European Economic Community (ECC) aimed to financially support Somalia's government institution, while aid provided by the UN, UNESCO, WHO and FAO was in the form of technical assistance; aimed at conducting surveys and research with less emphasis on development schemes.

Bilateral aid consisting of both grants and loans was generously provided to Somalia by donors like the U.S.S.R and U.S.A. The U.S, through USAID, provided aid to Somalia in the form of grants while the U.S.S.R offered commercial loans with preferential interest rates. Moreover, German assistance to Somalia was mainly in the form of long-term concessional loans with the interest rate of 2.5%. German aid included implementation of industrial projects, construction of roads, and the establishment of a technical institute in the Northern part of Somalia. The Italian assistance to Somalia varied between grants dedicated to physical infrastructure and mid-term commercial

loans carrying an interest of 7.5% (O. Mehmet, 1971).

Hence, the periods between 1960 and 1970 witnessed the emergence of several ‘aid players’ with different motives and interest taking part in Somalia’s development process by offering a substantial amount of aid in the forms of grants, loans, and technical assistance. However, in the wake of the civil war that began in 1991, drastic changes to the ‘aid players’ took place with some being forced to withdraw from the scene, and the strong emergence of new and old donors, namely Arab Countries and the U.S.

In 1991, Somalia was engulfed in a gruesome civil war that exhausted and displaced thousands of lives and tore the country into regions, where resources were looted and widespread chaos took place. As a consequence, Somalia suffered from a severe man-made famine in 1992 due to the constant violence over power that ravished the country, thus requiring the assistance of the international community in overcoming the aftermath of the famine. Responding to the humanitarian crisis in Somalia, the United States emerged as one of the major donors of humanitarian aid and embarked on a military mission to restore political stability which unfortunately ended with death of 18 U.S soldiers and hundreds of Somalis, (the infamous “Black-hawk Down” incident), thus leading to its withdrawal from Somalia in 1994.

**Table 1-2 | Total Official Aid to Somalia (1991-2000)**

<b>Year</b>	<b>ODA</b>
1991	186,420,000
1992	653,660,000
1993	892,120,000
1994	535,120,000
1995	187,930,000
1996	88,180,000
1997	81,180,000
1998	81,320,000
1999	115,700,000
2000	102,230,000

Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$).

Table 1-2 shows the changing pattern of official aid to Somalia during the beginning of the civil war in 1991. Although official aid has increased from the pre-civil war period, the year 1993 witnessed a sudden increase in official aid. The increase is attributed to the widespread famine caused by the escalating violence in country.

According to the World Bank, from 1991 to 2013, total net ODA to Somalia was estimated to be almost \$9.5 billion (World Bank, 2015). Foreign aid to Somalia was aimed to bring to an end the power vacuum that resulted from the constant fighting between rivaling factions, to strengthen ailing government institutions, and to restore peace and stability (U.S Department of State, 2015). Much of the international community efforts were dedicated to stabilizing the political situation in Somalia by supporting and initiating peace talks between rival political factions. It is also to be noted that much of the aid devoted to those talks has substantially contributed to the establishment of the Transitional Federal Government which, in the end, transformed into the Federal Government of Somalia (AMISOM, 2015)

However, Somalia experienced yet another famine in 2011, which according to World Food Program (WFP), affected the lives of almost 4 million people (WFP, 2011). Once again, the international community rushed to the rescue by donating over \$1 billion in humanitarian and development aid. With the establishment of the new Federal Government of Somalia in 2012, ODA to Somalia doubled from \$497 million in 2010 to more than \$990 million in 2013. Such increase in aid can be attributed to the donors' attempt to stabilize and ease political hostility, to improve governance, and to strengthen Somalia's frail institutions.

**Table 1-3 | Total Official Aid to Somalia (2004-2013)**

<b>Year</b>	<b>ODA</b>
2004	201,280,000
2005	240,220,000
2006	396,170,000
2007	393,740,000
2008	765,870,000
2009	661,640,000
2010	497,500,000
2011	1,095,640,000
2012	998,620,000
2013	991,920,000

Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>

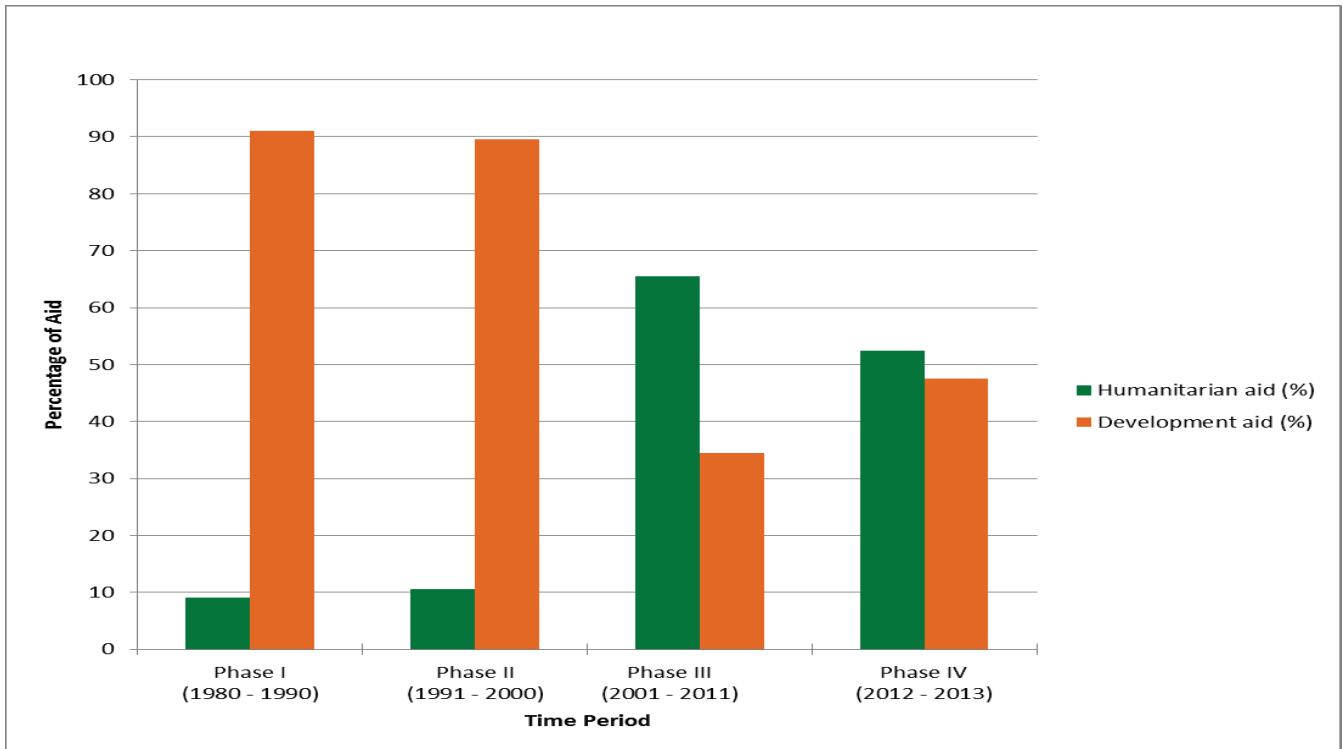
Table 1-3 presents official aid to Somalia in the periods of 2004 and 2013. With the establishment of the transitional government of Somalia in 2004, official aid increased substantially and reached its peak in 2011, after the UN declaration of famine in Somalia. Official aid kept on increasing after the 2012 elections of a new government.

**Table 1-4 | Timeline of Political Situation in Somalia and Aid (1980 - 2013)**

	<b>Major Political Events</b>	<b>Total ODA (million USD)</b>	<b>Humanitarian aid (%)</b>	<b>Development aid (%)</b>	<b>Role of Donors</b>
<b>Phase I (1980 - 1990)</b>	Rise in the opposition to Barre's Regime and retaliation of the regime.	4,834.8	9%	91%	Support of Siad Barre Regime- military support (U.S.S.R)
<b>Phase II (1991 - 2000)</b>	<ul style="list-style-type: none"> <li>- Outbreak of the civil war and fall of the Siad Barre regime; man made famine which claimed thousands of lives.</li> <li>- Declaration of self-independent northern state, Somaliland in 1991</li> <li>- Continues fighting over power by rivaling factions in the south.</li> </ul>	2,923.9	10.5%	89.5%	State-building initiatives (U.S & Arab League)
<b>Phase III (2001 - 2011)</b>	<ul style="list-style-type: none"> <li>- Establishment of a new Parliament and Transitional Government in 2004.</li> <li>- In 2006, violent clashes took place in Mogadishu between rivaling militias and Ethiopia's military intervention; emergence of the Islamist group, Al-Shabaab.</li> <li>- Alarming rise in Piracy related activities in 2008; UN Security Council intervenes by sending battle ships to Somali coasts.</li> <li>- Extension of the TFG mandate; former Chief of Islamic Courts Union, Sheikh Sharif elected as President in 2009 and withdrawal of Ethiopian troops.</li> <li>- UN declaration of Famine in Somalia in 2011.</li> </ul>	4,741.8	65.5%	34.5%	<ul style="list-style-type: none"> <li>- Sponsored the formation 'Transitional Somali Government'</li> <li>- Extended massive humanitarian relief in response to the 2011 famine.</li> <li>(U.S &amp; EU Institutions)</li> </ul>
<b>Phase IV (2012 -2013)</b>	<ul style="list-style-type: none"> <li>- First "democratic" presidential election took place in 2012; U.S recognition of Somalia's government.</li> <li>- Increase of Al-Shabaab attacks in Mogadishu and neighboring Kenya.</li> </ul>	2,044.4	52.4%	47.6%	Sponsored the election of a new government (U.S & EU Institutions)

Source: OECD Statistics (data only)

### Breakdown of ODA to Somalia (1980 - 2013)



Source: OECD Statistics (data only)

In the 1980s, Somalia had a full functioning government and most of foreign aid received by the government was in the form of development aid, almost 90%. Things started to change in the end of 1990's where foreign aid given to Somalia has shifted from being mainly development aid. The increase in the percentage of humanitarian aid is attributed to the long lasting civil war in Somalia that started in 1991, which caused a vacuum in power for more than two decades and hence recurring droughts and famine.



## IV. DATA ANALYSIS

### Methodology of Research

The methodology used in this paper is both qualitative and quantitative. Data on Official Development Assistance (ODA) and Worldwide Governance Indicators (WGI) of Somalia were both obtained from the World Bank Group.

In 1996, the World Bank Group developed a set of indicators to measure and rank individual and aggregate governance indicators across countries. The following six indicators measure multiple dimensions of governance.

<b>Governance Indicator</b>	<b>Measurement</b>
Voice and Accountability	Extent of perceived freedom of expression and association of civil society.
Political Stability and Absence of Violence	Level of states security and political situations.
Regulatory Quality	Government ability to develop and implement policies that promote private and public sector development.
Government Effectiveness	Government performance of provision of public services.
Rule of Law	Ability to enforce rules, regulations and access to justice.
Control of Corruption	Governments effort to enhance transparency measures and management of public funds

Source: Worldwide Governance Indicators, World Bank

The Worldwide Governance Indicators (WGI) are designed datasets collected through survey methods, which compiled the views of a large number of respondents (citizens, business groups, and experts) in developed and developing countries on governance related issues.

The approximate measurement scale for governance indicators ranges from (-2.5 and +2.5). However, there are cases of anomalies, e.g. Somalia, where political stability and absence of violence indicator surpassed the -2.5 scale (-3.32), indicating the level of dissatisfaction of Somali respondents with their country's political situation.

The Worldwide Governance indicators are published annually, except for the years 1997, 1999 and 2001, where the World Bank Group did not collect nor published governance data.

**Table 1-5| Official Development Assistance and Governance Indicators in Somalia (1996- 2013)**

Year	Official Aid (million \$)	Political Stability Index	Control of Corruption Index	Rule of Law Index	Government Effectiveness Index
1996	88	-2.65	-1.74	-2.22	-2.10
1998	81	-2.30	-1.78	-2.31	-2.16
2000	102	-2.08	-1.78	-2.31	-2.28
2002	153	-2.53	-1.17	-1.91	-1.60
2003	176	-2.67	-1.80	-2.11	-2.10
2004	201	-2.93	-1.78	-2.32	-2.09
2005	240	-2.75	-1.68	-2.21	-2.17
2006	396	-2.78	-1.84	-2.55	-2.31
2007	394	-3.24	-1.90	-2.62	-2.34
2008	766	-3.31	-1.92	-2.67	-2.45
2009	662	-3.32	-1.72	-2.50	-2.26
2010	498	-3.11	-1.74	-2.45	-2.24
2011	1,100	-3.07	-1.70	-2.36	-2.16
2012	999	-2.85	-1.59	-2.45	-2.23
2013	992	-2.75	-1.58	-2.44	-2.27

Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>. The World Bank Group, Worldwide Governance Indicators.

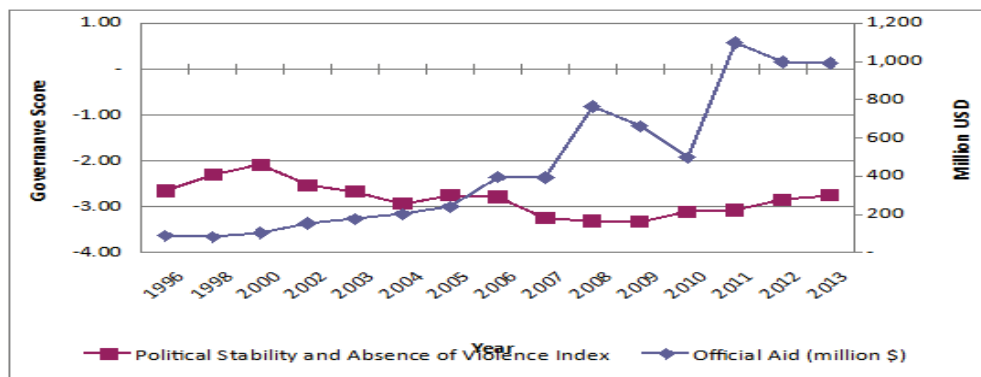
Table 1-5 shows the corresponding amount of aid received and governance indicators of Somalia from 1996 to 2013. Within the span of 15 years, Somalia received almost \$7 billion in humanitarian and development aid, however, governance indicators seem to decline with the increase of aid.

### **Limitations of Data**

Perhaps the major limitations of this section are the lack of sufficient time-series data on governance indicators (not available before 1996) and the non-availability of

governance data for specific years (1997, 1999 and 2001). Despite these limitations, an attempt to find the relationship between foreign aid on Somalia's governance indicators was undertaken.

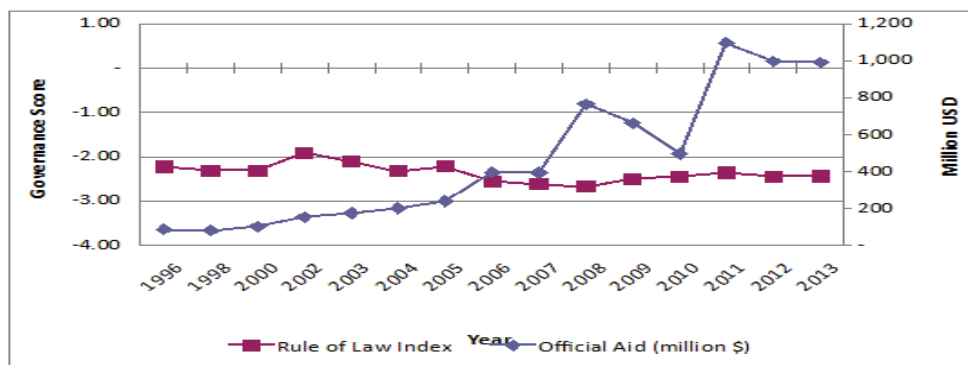
**Figure 1-1| Official Aid in Somalia and Political Stability Index (1996-2013)**



Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>. The World Bank Group, World Wide Governance Indicators.

Figure 1-1 presents the official aid flow and political stability index from 1996 to 2013. Clearly, the political stability index did not improve in Somalia as official aid flow increased throughout the years. Political stability index reached a record time low in the periods between 2007 and 2010 with the emergence of the Islamist group, Al-Shabaab, and their escalating terrorist activities in the following years.

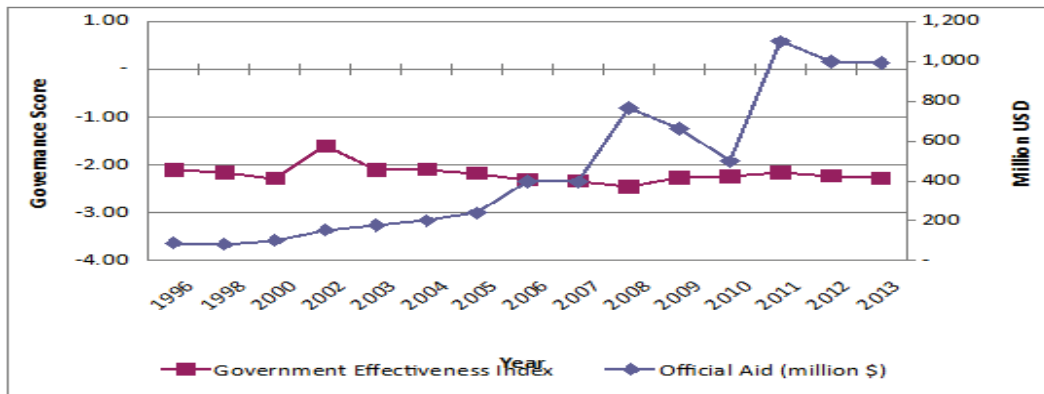
**Figure 1-2| Official Aid in Somalia and Rule of Law Index (1996-2013)**



Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>. The World Bank Group, Worldwide Governance Indicators.

Figure 1-2 shows changing patterns of official aid flow to Somalia and rule of law index. It is obvious that there is no or little variance in the rule of law index mainly due to continuous violence and political tensions in the capital city, Mogadishu, which had spread to the other southern regions. Also, the Somali government's inability to improve access to justice and draft and enforce laws and regulations contributed to the deterioration of the rule of law index. In a nutshell, the rule of law index continues to decline as official aid increases.

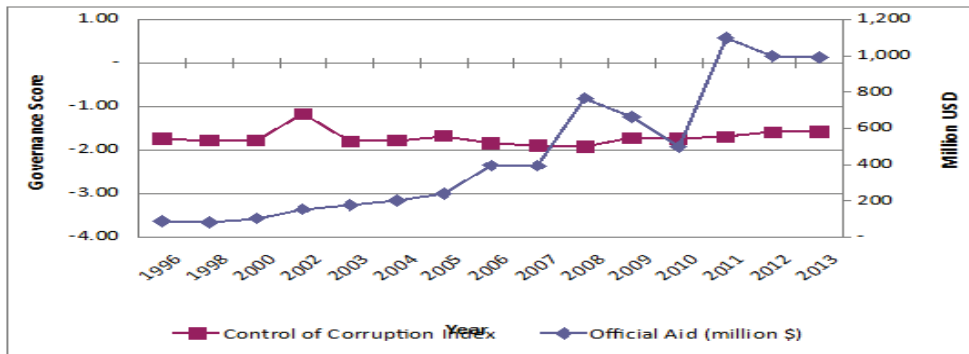
**Figure 1-3| Official Aid in Somalia and Government Effectiveness Index (1996-2013)**



Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>. The World Bank Group, Worldwide Governance Indicators.

Figure 1-3 illustrates annual changes in official aid in Somalia and government effectiveness index. Somalia's weak consecutive governments were not able to provide and extend basic public services within and outside the capital city of Mogadishu. With the continuing armed violence, the Somali government lacked the means to deliver its core function, public services. As shown above, there is no significant variance in the index as the aid to Somalia increases.

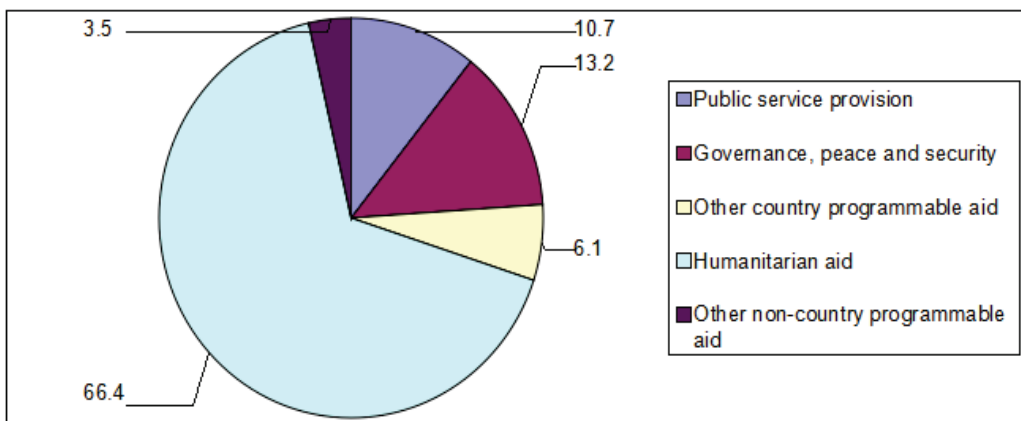
**Figure 1-4 | Official Aid in Somalia and Control of Corruption Index (1996-2013)**



Source: The World Bank Group, Net Official Development Assistance and Official Aid Received (current US\$). <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>. The World Bank Group, Worldwide Governance Indicators.

Figure 1-4 presents the variance in official aid to Somalia and control of corruption index. Since 2007, Somalia ranked as the most corrupted country in the world, according to Transparency International, an international organization that conducts annual surveys to measure corruption indices around the world. It is not a surprise that even with the end of the transitional period and holding “democratic” elections, the consecutive Somali governments remained corrupt. This implies that annual increase in official aid to Somalia has significantly affected control of corruption index by making it much worse.

**Figure 1-5| Total Official Development Assistance by Expenditure Type (2008-2012)**



Source: Development Initiatives based on OECD DAC CRS data

Figure 1-5 shows total official development assistance to Somalia, by expenditure type in the years 2008 to 2012. Total ODA for Somalia in the years 2008 to 2012 was estimated to be around \$ 3.7 billion and the share of humanitarian aid of ODA was estimated to be approximately \$ 2.5 billion (66%), while the share of governance, peace and security was estimated to be 5 times smaller than expenditure of humanitarian aid, \$ 500,000 (13%). This shows that the donor community places greater emphasis on expenditure on humanitarian aid and overlook the importance of strengthening governance, peace and security in Somalia.

### **Research Characteristics**

An attempt to perform a statistical analysis was made using STATA (Statistics/Data Analysis) package. Statistical analysis was conducted using quantitative, secondary data obtained from the World Bank to observe the relationship between foreign aid, governance, and institutions in Somalia.

Time series data of official aid to Somalia and governance indicators such as political instability and absence of violence, government effectiveness, and rule of law and control of corruption from the periods 1996 to 2013 was examined. The significance interval set for this study is 95% (p-value < 0.05).

The results of the statistical tests can be found in the in the appendix.

## **Research Findings**

To recall the hypothesis made in the beginning of this paper, the assumption made was: foreign aid to Somalia has not contributed to the improvement of the state's political stability, and a substantial amount of foreign aid delivered over a long period of time has had a significant negative effect on Somalia's governance and institutions.

Using STATA, the results show that there is a statistically significant negative relationship between foreign aid (ODA) and governance indicators (political stability, rule of law and government effectiveness). In addition, there is no statistically significant evidence that there is a relationship between ODA and control of corruption indicator.

By separately testing the relationship between development aid and governance indicators, the results show that there is a statistically significant negative relationship between development aid and governance indicators (political stability, rule of law and government effectiveness). Moreover, there is no statistically significant evidence that there is a relationship between development aid and control of corruption indicator.

Clearly, foreign aid did not lead to improved governance in Somalia. There has not been any significant change in governance indicators from 1996 to 2013, but we cannot rule out that foreign aid may have prevented governance indicators from getting worse, or had no effect at all.

## V. CONCLUSION AND RECOMMENDATIONS

Somalia, a fragile state, consumed by a vicious civil war that lasted for more than two decades, has been a major recipient of foreign aid. However, Somalia's government continues to face issues of political legitimacy, weak governance, and widespread corruption. Since 1980, Somalia has received more than \$14 billion in foreign aid, yet signs of improved governance have not been shown.

There are several factors that might have contributed to Somalia's unimproved governance. First, in extreme cases of humanitarian emergencies which Somalia had its own share of (extreme droughts and famine in 1992 and 2011), donors continue to provide aid in spite of serious governance issues. Second, before Somalia's "democratic" elections in 2012, there was a serious power vacuum that the consecutive transitional governments could not fill. This led to difficulties of using foreign aid to address governance issues. Third, referring to Somalia's foreign aid data, official development assistance to Somalia is mostly dedicated to humanitarian aid (emergency response, reconstruction, and rehabilitation) where governance and development share are significantly low. This implies that humanitarian aid is not a good instrument for addressing governance issues in Somalia.

Finally, the issue of foreign aid to fragile states, specifically Somalia, is quite complex. Further research is needed as Somalia's governance data in this study is limited or unavailable due to its state of extreme fragility. Moreover, as mentioned before, Somalia is divided into three parts: autonomous Somaliland, Puntland, and the government based South Somalia. Closely studying the impact of foreign aid on governance in these separate parts is needed to determine whether foreign aid has



contributed to improved governance since the secessionist and autonomous state of Somaliland and non-secessionist Puntland enjoy relative peace and political stability compared to the government based South Somalia.

Based on these research findings and with reference to the review of literature, the following recommendations might be considered to ensure that aid to Somalia strengthens state stability and governance.

1. Donors should separate politically-motivated aid from development-motivated aid.
2. There has to be some kind of conditionality measures to aid given to Somalia to ensure the government commitment to initiate reforms.
3. Somalia's transparency and accountability issues have to be carefully addressed to make sure that aid doesn't end up in the wrong 'pockets'.
4. Aid to Somalia should be provided with clear targets and aimed at measurable results. The donors and the Somali government should be held more accountable for achieving specified goals.
5. Donors must consider providing sufficient development aid for Somalia to address its governance issues as humanitarian aid fails to improve it.
6. And last, but not least, communication between the donors and the Somali government should be greatly strengthened to ensure that aid fulfills its purpose of alleviating poverty, initiating development progress, and strengthening state stability and governance.

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## APPENDIX

Variables	Abbreviation
Political Stability	PS
Control of Corruption	CC
Rule of Law	RL
Government Effectiveness	GE
Natural Log of Foreign Aid	LNFA
Natural Log of Development Aid	LNDA

### Descriptive Statistics (Foreign aid and governance indicators)

Variable	Obs	Mean	Std. Dev.	Min	Max
LNFA	18	19.41278	.9302737	18.21	20.81
CC	18	-1.708472	.1737671	-1.924	-1.167
RL	18	-2.339722	.1913303	-2.67	-1.91
GE	18	-2.169444	.182127	-2.45	-1.6
PS	18	-2.739639	.3801629	-3.324	-2.082

### Descriptive Statistics (Development aid and governance indicators)

Variable	Obs	Mean	Std. Dev.	Min	Max
LNDA	18	4.783971	.7597009	3.851424	6.268357
CC	18	-1.708472	.1737671	-1.924	-1.167
RL	18	-2.339722	.1913303	-2.67	-1.91
GE	18	-2.169444	.182127	-2.45	-1.6
PS	18	-2.739639	.3801629	-3.324	-2.082

**Correlation and Linear Regression of Foreign Aid (ODA) and Governance Indicators**

**(1996-2013)**  
 . correlate LNFA CC RL GE PS  
 (obs=18)

	LNFA	CC	RL	GE	PS
LNFA	1.0000				
CC	-0.0423	1.0000			
RL	-0.6155	0.6825	1.0000		
GE	-0.4292	0.8404	0.8955	1.0000	
PS	-0.7584	0.2757	0.6248	0.3942	1.0000

**PS = 3.276767 - 0.3099199 LNFA + E**  
**(R<sup>2</sup>= 0.5751)**

. reg PS LNFA, robust

Linear regression

Number of obs =	18
F( 1, 16) =	19.63
Prob > F =	0.0004
R-squared =	0.5751
Root MSE =	.25542

PS	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
LNFA	-.3099199	.0699513	-4.43	0.000	-.45821 - .1616297
_cons	3.276767	1.346194	2.43	0.027	.4229639 6.13057

**CC = -1.554917 - 0.00791 LNFA + E**  
**(R<sup>2</sup> = 0.0018)**

. reg CC LNFA, robust

Linear regression

Number of obs =	18
F( 1, 16) =	0.05
Prob > F =	0.8319
R-squared =	0.0018
Root MSE =	.17895

CC	Robust		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
LNFA	-.00791	.0366689	-0.22	0.832	-.0856446	.0698246
_cons	-1.554917	.7265822	-2.14	0.048	-3.095203	-.0146321

**RL = 0.1176454 - 0.1265851 LNFA + E**  
**(R<sup>2</sup> = 0.3788)**

. reg RL LNFA, robust

Linear regression

Number of obs =	18
F( 1, 16) =	14.24
Prob > F =	0.0017
R-squared =	0.3788
Root MSE =	.15544

RL	Robust		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
LNFA	-.1265851	.0335442	-3.77	0.002	-.1976956	-.0554745
_cons	.1176454	.6551841	0.18	0.860	-1.271283	1.506574

**GE = -0.5383448 - 0.084022 LNFA + E**  
**(R<sup>2</sup> = 0.1842)**

. reg GE LNFA, robust

Linear regression

Number of obs =	18
F( 1, 16) =	5.52
Prob > F =	0.0320
R-squared =	0.1842
Root MSE =	.16956

GE	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
LNFA	-.084022	.0357593	-2.35	0.032	-.1598283    -.0082156
_cons	-.5383448	.7144199	-0.75	0.462	-2.052847    .9761577

**Correlation and Linear Regression of Development Aid and Governance Indicators**

**(1996-2013)**

. correlate LNDA CC RL GE PS  
(obs=18)

	LNDA	CC	RL	GE	PS
LNDA	1.0000				
CC	0.0157	1.0000			
RL	-0.5840	0.6825	1.0000		
GE	-0.4208	0.8404	0.8955	1.0000	
PS	-0.6277	0.2757	0.6248	0.3942	1.0000



**PS = -1.236953 - 0.3141084 LNDA + E**  
**(R<sup>2</sup> = 0.3940)**

. reg PS LNDA, robust

Linear regression

Number of obs =	18
F( 1, 16) =	8.78
Prob > F =	0.0092
R-squared =	0.3940
Root MSE =	.30505

PS	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
LNDA	-.3141084	.1060306	-2.96	0.009	-.5388834    -.0893335
_cons	-1.236953	.4929909	-2.51	0.023	-2.282047    -.1918594

**CC = -1.725701 + 0.003613 LNDA + E**  
**(R<sup>2</sup> = 0.0002)**

. reg CC LNDA, robust

Linear regression

Number of obs = 18  
 F( 1, 16) = 0.01  
 Prob > F = 0.9409  
 R-squared = 0.0002  
 Root MSE = .17909

CC	Robust		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
LNDA	.0036013	.047857	0.08	0.941	-.097851	.1050536
_cons	-1.725701	.2502954	-6.89	0.000	-2.256303	-1.195098

**RL = -1.636136 - 0.1470716 LNDA + E**  
**(R<sup>2</sup>= 0.3410)**

. reg RL LNDA, robust

Linear regression

Number of obs = 18  
 F( 1, 16) = 13.02  
 Prob > F = 0.0024  
 R-squared = 0.3410  
 Root MSE = .1601

RL	Robust		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
LNDA	-.1470716	.0407541	-3.61	0.002	-.2334665	-.0606767
_cons	-1.636136	.2008612	-8.15	0.000	-2.061943	-1.210329

**GE = -1.686829 - 0.1008819 LNDA + E**  
**(R<sup>2</sup>= 0.1771)**

```
. reg GE LNDA, robust
```

Linear regression

```
Number of obs =    18  
F( 1, 16) =    5.22  
Prob > F      = 0.0364  
R-squared     = 0.1771  
Root MSE     =  .1703
```

GE	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
LNDA	-.1008819	.0441729	-2.28	0.036	-.1945243 - .0072394
_cons	-1.686829	.2355693	-7.16	0.000	-2.186213 -1.187444