

Remittances and Their Economic Impact in Post-war Somaliland

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This paper examines the role of remittances, provided by a large global diaspora of migrant workers and refugees, in post-war Somaliland. Based on field-work conducted in Somaliland under the COPE project¹ in 1998/9, the paper discusses trends in the size, source, means of transfer, distribution and use of remittances, their role in livelihoods and in the country's economic recovery and future prospects. The total value of remittances, originating mainly from migrant labour in the Gulf and more recently an exodus of refugees to the West, and greatly facilitated by the growth of telecommunications in Somaliland and of remittance agencies, is estimated at some US\$500 million annually — around four times the value of livestock exports and much more significant than hitherto appreciated. Contrary to the prevailing view that remittances are mainly used for consumption and unproductive investments such as housing and land, this study suggests that in Somaliland they have contributed to the rapid growth of a vibrant private sector. On the other hand, remittance flows have been associated with a number of negative side-effects such as the loss of the country's most educated and skilled labour, increased income inequality and booming sector effects, and their positive impact is limited by the present lack of credit schemes and facilities for saving.

Keywords: conflict, rehabilitation, diaspora, remittances, Somaliland.

Introduction

Since the oil boom in the Gulf in 1970s, remittances have played an important role in the local economy of Somaliland. However, the importance of remittance flows has significantly increased since the outbreak of war in 1988 which forced almost the entire population of the north to seek refuge in the neighbouring countries and southern regions of Somalia. During the war thousands sought refuge in Europe and North America, substantially adding to the already large migrant population in the Gulf. A large number came to the United Kingdom where there had been a long established Somali community from Somaliland. More than a century ago the first Somali seafarers recruited to work in the Merchant Navy settled in Britain. There is no census data, but the Somali population in Britain is estimated to be around 100,000 (Ahmed, 1998). Most of these refugees who live in London are from Somaliland.

From some point in the early 1990s remittances have replaced livestock exports as the main source of foreign-exchange earnings. Currently, the size of annual remittances is estimated to be roughly four times the value of livestock exports. Thus the economic disaster predicted for Somaliland following Saudi Arabia's ban on imports of livestock from the Horn in 1998 has largely been averted by the remittance flows that during the ban financed virtually the entire import bill for both Somaliland and the Somali region in Ethiopia. Somaliland has now become a major labour-exporting country heavily dependent on remittances provided by the large population of Somali migrants and refugees around the world.

The impact of remittances on home countries is a subject of considerable debate (Adam, 1989; Elbadawi and Rocha, 1992; Glytos, 1993; Gustasson and Makonnen, 1994). The most prevalent view in the literature is that remittances are mainly used for consumption and unproductive investments such as housing and land. Most of the studies have concentrated on the negative effects of remittances, including increasing income inequality in the labour-sending countries. It has been argued that such flows generally fail to contribute to development. However, more recently the negative view of the developmental impact of remittance flows has been challenged for focusing mainly on the most immediate effects, while ignoring the multiplier effects that sometimes lead to increase in demand much larger than the value of transfers.

Despite its importance, there is a dearth of information on remittances and very little is known about its impact on the dynamics of post-war economic reconstruction. Absence of national accounts or other data makes it difficult to do detailed analysis. Based on interviews and survey data collected in Somaliland in 1998/9, this study provides an overview of the importance of international remittances and their impact on the local economy. The aim is to understand considerably better this important source of income and livelihood in post-war Somaliland.

Methodology

The study is part of the 1997–2000 DFID-funded COPE project on complex political emergencies. It is based on data from several sources including a questionnaire survey of 116 households carried out in Somaliland during 1998 and 1999, detailed interviews with money transfer companies (locally known as *Hawaalado*) and information from two telephone companies that operated in Hargeisa in 1998. Sample households were randomly selected from a list of recipients obtained from remittance and telephone companies. In the absence of a complete sample frame this provided the most up-to-date list of people who receive remittances in Hargeisa. The list, which includes all the different categories of recipients, is considered to be representative. It is important to note that households who receive money transfers through other channels also use remittance companies and therefore the list includes not just their regular clients but also those who receive money through traders or other channels.

A semi-structured questionnaire was used, specifically designed to cover topics such as the size, source and use of remittances together with household characteristics. The questionnaire was easy to use and the enumerators were given interview guides that explained the questions. The forms were written in English, but some questions that were judged to be ambiguous in English were translated into

Somali. Previous survey experience in the area shows that interviewing male household heads is best carried out in *Qat* (*catha edulis*)² sessions. Therefore, wherever possible, interviews were conducted during *Qat* sessions.

A reasonably high degree of accuracy was achieved in this survey for several reasons. First, the researcher's extensive experience in the study area assured in-depth local knowledge and understanding of the situation. The researcher and the enumerators had worked in the area for more than seven years and conducted several other studies since 1987. In the same year the team also conducted a livelihood survey based on a sample of 296 households in rural areas. Second, various measures, including built-in checks in the questionnaire, were taken to minimise non-sampling errors which experience shows are generally more important in this type of survey. Third, detailed interviews with leading money transfer agents also provided important data on both the amount of money that goes through these channels and details of individual transfers.

The size of remittance flows

Two other studies have attempted to estimate the size of remittances. The first carried out in 1987 for former Somalia by Green and Jamal (1987) attempted to estimate both the size of Somali expatriate abroad and remittance flows. It estimated the population of migrant workers to be at least 375,000 with annual remittances of \$478–540 million. Because of its close proximity to the Gulf, the majority of migrants in the Gulf are from Somaliland. The study does not provide a breakdown of the remittance flows to various parts of former Somalia, but more than half went to Somaliland.

The Ministry of Planning (1998) conducted a short study in 1997 as part of a two-year development plan. This mainly concentrated on providing estimates of the size of remittances and therefore does not provide other data that can be used for comparison purposes. Acknowledging the difficulty of estimating the volume of remittance flows in a country where data on all basic economic variables are missing, it came up with a figure of about \$93 million for transfers channelled through remittance companies. It has not, however, attempted to estimate remittances transferred through other means. The study was based on estimates obtained through interviews with money transfer companies.

The two studies are not based on detailed empirical work but they have attempted to piece together fragments of evidence to come up with reasonable estimates that contrast sharply with a very wide range of evidence from international agency reports. A USAID report, for instance, quotes total annual remittances to Somaliland of around \$4 million in 1998, predicting economic disaster for the country following the ban of livestock export to Saudi Arabia.

Estimating remittances is problematic for a number of reasons. First, remittances are transferred in a number of forms and through different channels. They can be cash or in-kind (mainly cars, furniture, jewellery, clothing, electronic goods). They can be channelled through *Hawaalado* and trusted merchants or hand carried by migrants when they visit home. Second, there are no data available on the global numbers of migrants and refugees from Somaliland. Nor is there any information about the remittance behaviour of the migrant population. Third, *Hawaalado*, who are responsible for a significant part of the transfers, sometimes deliberately under-report

the size of the flows for fear of government interference in the form of taxes or new regulations. They may also under-report in an attempt to influence policy in relation to international aid. For example, some *Hawaalado* misled researchers who carried out the USAID study on the impact of the livestock ban in the hope that they would recommend extra assistance. Finally, remittance flows show great seasonal variation, usually increasing sharply during droughts and insecurity when normal livelihood sources are disrupted.

Table 1 presents remittance estimates derived from the survey data. It shows that the average annual remittance received by households is \$4,170. With an average 120,000 recipient households throughout the country,³ the overall annual value of remittances is estimated to be \$500 million. These estimates of remittances are consistent with other studies and transfers to countries such as Eritrea and Sudan with similar migrant populations. However, it is important to note that the distribution of annual transfers is highly skewed due to large sums of money received by a relatively small proportion of households. There are also large variations in amounts received between three groups of households: those who rely entirely on remittances; those who primarily depend on remittances but have other sources of income; and those for whom remittances provide only a small proportion of their income.

The relatively large transfer per household is often supplied by more than one migrant. Up to 35 per cent of the recipients reported receiving money from two to eight different migrants. One respondent, for example, received money from family members and relatives from 11 different countries. Some remitters are not aware of the fact that their families are also receiving money from other relatives or family members.

Remittances are heavily concentrated in urban centres. While the majority of households in Hargeisa rely on remittances for their livelihoods, less than 5 per cent of rural households receive money transfers from abroad. It is, particularly, less important in pastoral households. For agro-pastoralists, internal remittances from migrant workers in urban areas are more important to them than international ones.

Because of recent changes in the demographic structure of migrants, an increasing proportion of remitters now are women (see Table 2). The survey data show that close to 40 per cent of those who remitted money are women (reported by respondents as sisters, daughters, mothers and wives). Most of these are either in Europe or North America. It is interesting to note that the number of wives supporting their husbands is roughly the same as the number of husbands sending remittance to their wives.

Sources of remittances

Previously, Gulf states were by far the largest source of remittances, representing at least 60 per cent of the total transfers in the late 1980s (Green and Jamal, 1987). By hosting the largest number of guest workers, Saudi Arabia was the single most important source of income. However, the refugee exodus since the war in 1988 has significantly altered the migrant population and the source of remittances. Although Saudi Arabia remains the leading source, the UK has replaced it as the country with the largest Somali population outside the home country and the second most important source of remittance. Moreover, while the migrant population in Saudi

Table 1 Remittances and recipient household characteristics

Mean household remittances per annum	\$4,170
Average number of transfers per annum	13.5
Mean family size	6.9
Share of remittances in household income	64%

Table 2 Distribution of remitters by relationship to recipient

<i>Relationship</i>	<i>Percentage</i>
Brother	21
Sister	15
Son	13
Daughter	10
Father	13
Husband	8
Wife	7
Mother	6
Other	7
Total	100

Arabia and other Gulf states is falling since the decision by these countries to replace foreign workers with their local workforce, the size of refugee population in the UK and other Western countries is increasing. If this trend continues, the UK will soon replace Saudi Arabia. Other important countries include UAE, Holland, Canada, the US, Sweden, Denmark, Norway, Qatar, Finland, Kuwait, Australia and Djibouti. No reliable data are available about the numbers of migrants and refugees or the size of remittances from these countries. One estimate puts the size of the migrant population outside Somaliland as high as 350,000.

The change in the source of remittance has important implications for its future. On the one hand, in the Gulf migrants are mainly young single men who voluntarily left their country in search of better economic opportunities. These migrants remit most of their income back home to support family and to invest in construction and productive assets in urban areas with the intention to return home after years of work in the Gulf. Only those who were prepared to work under difficult conditions and had relevant skills and education migrated to these countries. In some countries, such as Qatar, as many as 95 per cent of migrants were employed during the peak of the oil boom in the late 1970s.

On the other hand, migrants in the West are mainly refugees forced to leave their country for mainly political reasons. Their migration appears to be permanent. The new migration no longer involves individuals looking for work, but rather entire families aiming to settle in the host country. While the migrants in the Gulf are mainly men, the overwhelming majority of refugees in the West are women and children. For instance, over 80 per cent of the migrant population in Saudi Arabia are men, but the figure is less than 40 per cent in the UK. Furthermore, as many as one-half of the refugees in the UK have now either permanent residence or citizenship (Ahmed, 1998), but less than 5 per cent of migrants have permanent residence in

Saudi Arabia. Although the West provides better opportunities, the proportion of people in gainful employment is also still very low.

The remittance behaviour of refugees is likely to be different from their compatriots in the Gulf. Migrant workers in the Gulf normally remit between 50 and 70 per cent of their incomes (Amjad, 1989). Refugees have generally a much lower propensity to remit, sometimes because of family obligations in the host country. Availability and consumption of *Qat* also plays an important role and explains a wide variation in the average amounts remitted by refugees even within the EU countries (which have a more or less similar welfare and wage structure). For example, the average amounts remitted by refugees in the UK and Holland (the European heartland of *Qat*) are much lower than those sent by migrants in Finland (a *Qat*-free zone). Interestingly, the difference is even statistically significant. Thus as more guest workers from Gulf migrate to the West or return, remittance is expected to fall unless the large-scale migration continues. The magnitude of the fall will depend on how far the refugees in the West retain their home-country links. Integration into the host community (usually through inter-marriage) is often associated with lower remittance and a higher default rate on the informal remittance contract with family members at home. Moreover, second- or third-generation migrants are also generally expected to have very weak links with their kin.

Money transfer system

Remittances are channelled through an increasing number of money transfer companies and traders, although large sums are sometimes hand carried by migrants and their relatives when they visit home. Transfers through *Hawaalado* are particularly common for regular remittances sent to support families. Over the last few years the system has been transformed from a fairly slow traditional system to a more modern and faster method. Under the old system, money remitted from Saudi Arabia to Hargeisa used to take weeks if not months. The way it worked was that trusted merchants from the same clan used to obtain the money in the Gulf to finance imports. It was only after the goods were sold that traders paid the money to recipients. There was no direct commission, but traders used to pay local currency at a negotiated rate lower than the market rate. Because of the risks involved in money transfers and international trade under the last regime, this was considered reliable and efficient at the time.

The availability of telephones and better transport links to the Gulf have now fostered communication between migrants and those at home and facilitated the money transfer. Increasing networks of *Hawaalado* agents in all overseas countries with a substantial migrant population have now made money transfer simpler and more efficient. The companies charge commissions of up to 5 per cent depending on the amount. Dahabshiil, which has the largest network of agents, is the leading company that transfers remittances to Somaliland. It established its reputation as the most trusted company during the war. There are 10 other small companies that handle an average of up to \$0.5 million per month.

In the Gulf, substantial amounts of remittances are still transferred through trusted traders who use the money to buy goods. Since these traders do not charge commission, migrants remitting large sums often use them to avoid paying fixed

commissions to *Hawaalado*. With improved security, more people feel safe hand carrying their money when they visit home. The commission structure of remittance companies sometimes encourages people to hand-carry cash or send it through traders if the sums involved are large. The regular direct flights from Jeddah, Dubai and Sharja have made this particularly easy.

Economic impact of remittances

Have remittance flows contributed to economic recovery and regeneration in Somaliland? To assess the effect of remittances, we need to look at two types of impacts: effects at the household level and the overall impact on the economy and society as a whole. The first is positive because the large flow of remittances has provided secure livelihoods for thousands of families. In urban areas many people enjoy a high standard of living that would not be possible without remittances. However, the second depends largely on whether remittance flows have been transformed into productive investments. Although there are no detailed data to prove the positive multiplier effects of remittance, there is ample evidence that it has contributed to the rapid growth of a vibrant private sector.

There are many uses for remittances. Although most recipients use remittances mainly for immediate consumption, up to 15 per cent said they used the money to invest in acquiring assets such as land or houses or to set up business enterprises. Other uses include financing further migration from the family, special family occasions such as marriages, pilgrimages to Mecca and meeting highly expensive social obligations such as blood-money payments. In the absence of formal insurance, the traditional system of collective responsibility for the payment of compensation for homicide or physical injuries currently operates in urban centres. In rural areas, remittances provide security against crop failures, illnesses, sudden price falls and loss of income or assets.

An important effect of remittances in towns has been the establishment of a new generation of successful enterprises that now rival the traditional trade-based businesses. There are now as many as six commercial airlines that link Somaliland to the outside world and five telecommunications companies that have established rapidly expanding telephone networks throughout Somaliland. Using a microwave system that does not require expensive land cables, they have set up one of the cheapest telephone services in the region. These telephone networks have now reached even the most remote towns across the country.

The availability of a telephone service is particularly important for remittances. When the telephone service first became widely available in Hargeisa in 1996, the remittances tripled in the same year. Realising this, the two largest money transfer companies recently started investing heavily in telephone networks. Although the telephone system was set up primarily for the communication of migrants and their families, the availability of cheap telephone services⁴ has helped local entrepreneurs who rely on contacts with agents in the Gulf. Villages with no telephone system are linked to the networks by high-frequency radio, allowing them to communicate anywhere in the world. The new telephone systems have also made it possible for businesses to transfer money quickly through remittance companies to purchase goods from abroad. With improved communication, remittance agencies can

now make urgent transfers to a growing global network of agents in a matter of minutes. In the absence of banking facilities, international trade would have been extremely difficult for businesses without letters of credit from banks.

Low taxes and limited regulation have created a policy environment conducive to private sector initiatives that have encouraged remittances and investment. There are opportunities for further private enterprise development as a result of increased demand for consumer goods. In what is often termed the 'Dubai syndrome', the conspicuous consumption habits of many urban households have created a booming market for imported consumer goods. New business ventures are helped by the ease of entry and exit and relatively low start-up capital often raised from relatives living abroad. Investment in new enterprises can easily be reversed or liquidated partly because equipment or goods purchased can readily be sold in second-hand markets at reasonably good prices.

When the Saudi government imposed a ban on export of livestock from the Horn of Africa in 1998 following the outbreak of Rift Valley Fever in Kenya and southern Somalia, many predicted a collapse of international trade and market exchange. It was feared that the shortage of hard currency needed to finance imports would spell disaster for the country. The ban lasted 14 months and the number of animals exported fell sharply from 2.9 million in 1997 to just over 1.0 million in 1998 (Table 3). This sudden collapse of the country's sole export largely failed to affect the volume of imports mainly because remittances financed the entire import bill. Overall imports including cereals have increased at the same rate as before the ban (Table 4). The exchange rate between the Somaliland shilling and the US dollar also remained unchanged during the ban.

Unfortunately, remittance flows have also been associated with a number of negative side-effects. One is the loss of the country's most educated and skilled labour force. Another is increased income inequality and booming sector effects (or 'Dutch disease'). The brain drain has reduced the productive capacity of the country at a time when the need for skilled and professional workers was most critical. Growth of business enterprises is proving difficult because of a critical shortage of people with the managerial and technical skills necessary to transform these enterprises into organisations. Many of the medium-sized businesses have the necessary capital and market to expand their activities, but they lack the organisational capacity to grow. The serious shortage of skilled labour equally affects the establishment of effective public institutions in the country.

There is also sufficient evidence to show that remittances have increased income inequality. It is important to note that migrant workers and refugees generally come from better-off families who could afford the relatively high investment costs involved in sending someone abroad. The going rate for an employment visa and ticket to the Gulf is about \$3,000, while a ticket and travel document to Europe or North America cost roughly \$5,000. Therefore it is mainly those families who can afford to invest in migration that receive remittances.

Remittances have also been associated with what is generally known as booming sector ('Dutch disease') effects. This typically arises when part of the income from a booming sector (in this case export of labour) is spent on non-tradables leading to an increase in the relative price of non-traded goods to traded goods. In particular the spending effects of remittances and the *Qat* trade have had distorting effects on real wages, resulting in at least a fivefold increase in wages since the late

Table 3 Export of live animals from Somaliland, 1996–1998
(no. of animals)

	1996	1997	1998
Sheep/goats	2,376,646	2,814,495	957,224
Cattle	65,127	66,939	92,213
Camels	42,828	50,587	11,663
Total	2,484,601	2,932,021	1,061,100

Source: Berbera Port Authority

Table 4 Somaliland's cereal imports, 1996–1998
(metric tons)

	1996	1997	1998
Sugar	98,772	80,469	165,368
Rice	81,800	66,419	43,010
Wheat flour	21,250	28,114	21,419
Total	203,818	176,999	231,795

Source: Berbera Port Authority

1980s. Daily wages are generally indexed to *Qat* prices and the minimum remuneration of a day's work is equivalent to two bundles of *Qat*, which currently cost \$5. These higher wages have adversely affected the labour-intensive livestock export and farming sector where farm labour is linked to the wages in the construction sector. Increased demand for construction in urban centres has also further encouraged rural to urban migration. Overall this had a negative effect on the rural productive sector.

Moreover, absence of banking facilities and other financial institutions have also discouraged deposits and made credit generation difficult, narrowing further the developmental impact of remittances. There are no credit schemes nor are there any facilities for savings. Savings from remittances have generally been shown to be high in other recipient countries. For instance, a savings rate by migrant households of up to 50 per cent of remittances has been found in Bangladesh and Pakistan (Amjad, 1989). Because of the lack of banking facilities, migrants and large traders keep part of their capital abroad. In a sense the massive capital flight during the war has yet to be fully reversed.

Conclusion

The large refugee exodus to Europe and North America in the early 1990s has substantially increased the migrant population, leading to an unprecedented increase in remittances. These large capital flows have contributed to rapid economic recovery and the development of a dynamic private sector. However, remittances have been associated with a number of negative side-effects including increasing income inequality. Reducing the negative effects of money transfers requires public action.

There is an urgent need for effective government institutions with the capacity to provide the necessary public services for creating an environment conducive to productive investment that does not exacerbate income inequality.

Notes

1. The Consortium for Political Emergencies (COPE) is a consortium funded by the Department for International Development to conduct research on Complex Political Emergencies: From Relief to Sustainable Development? from 1997 to 2000. COPE is led by the Centre for Development Studies at the University of Leeds, and includes ACORD, The Department of Peace Studies at the University of Bradford, and the Institute of Development Studies at the University of Sussex.
2. *Qat* is a mild stimulant widely consumed in the Horn of Africa and Yemen.
3. The figure of 120,000 households is about one-third of the total population.
4. The standard charge for international calls to anywhere in the world is \$1 per minute. In the neighbouring countries the charges are about \$7.0 in Djibouti, \$3.5 in Ethiopia and \$2.5 in Kenya.

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