Remittances and their economic impact in post-war Somaliland

Published paper

An enduring difficulty of assessing needs amongst certain emergency affected populations has been uncertainty about whether the affected population are sent income from relations abroad or living in other parts of the country (remittances), and if so, how much. It is extremely difficult to quantify or monitor remittances as sources, and channels are diverse with cash flows often taking place in the 'black' economy.

A recent study in Somaliland has thrown some light on this subject. The study examined the role of remittances provided by a large global diaspora of migrant workers and refugees in post-war Somaliland. Field work was conducted in 1998/9 and examined trends in the size, source, and means of remittance transfer as well as the use of remittances, their role in livelihoods and in the country's economic recovery. Sample households were randomly selected from a list of recipients obtained from telephone and money transfer companies. A semi-structured questionnaire was used. Data was also obtained through detailed interviews with leading money transfer agencies on the amount of money that goes through these channels and details of individual transfers.

Estimating remittances in Somaliland is problematic for a number of reasons. First, remittances are transferred in a number of forms and through different channels. They can be cash in kind, e.g. cars, furniture, jewellery, clothing or electronic goods and they can also be channelled through trusted merchants or hand carried by migrants when they visit home. Secondly, there is no data available on the global numbers of migrants and refugees from Somaliland. Third, Hawaalado (money transfer companies) who are responsible for a significant part of transfers, sometimes deliberately under-report the size of the flows for fear of government interference in the form of taxes or new regulations.

Remittances originate mainly from migrant labour in the Gulf and more recently an exodus of refugees to the West. The growth of telecommunications in Somaliland and of remittance agencies has greatly facilitated the transfer of money. The study found that the value of remittances is estimated at some US$ 500 million annually - around four times the value of livestock exports. In fact the livestock export ban by Saudi Arabia in 1998 in response to the Rift Valley fever outbreak in Kenya and southern Somalia was predicted to lead to a collapse in 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 from Somaliland fell sharply from 2.9 million in 1997 to just over 1 million in 1998. However, this failed to affect the volume of imports mainly because remittances financed the entire import bill.

The study found that the average annual remittance received by households was $4,170 and that there were approximately 120,000 recipient households throughout the country - roughly one third of the population. 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. It appears that remittances are heavily concentrated in urban centres. While the majority of households in Hargeisa rely on remittances for their livelihoods, less than 5 percent 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 than international ones. Because of recent changes in the demographic structure of migrants, an increasing proportion of those receiving this kind of income are women.

The effect of remittances on households has been considerable in providing secure livelihoods. The study found that in urban areas many people had a high standard of living due to remittances. However, there is evidence to show that remittances have increased income inequality. 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 $3000 while a ticket and travel documents to Europe or North America cost roughly $5000. Therefore it is mainly those families who can afford to invest in migration that receive remittances.

One of the conclusions of the study was that these large capital flows have contributed to rapid economic recovery in post-war Somaliland and the development of a dynamic private sector.

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Taken from Field Exchange 12

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