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# VARIATIONS ON THE THEME OF SOMALINESS

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# Remittances and Their Economic Impact in Somaliland

Since the oil boom in the Gulf in 1970s remittances have played a significant role in the local economy. However, the importance of remittance flows has significantly increased since the war when thousands of refugees migrated to Europe and North America, substantially increasing the already large migrant population. From 1988 remittances have replaced livestock export 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 export. The economic disaster predicted for Somaliland following the ban of livestock by Saudis has largely been averted by the remittance flows that financed the entire import for both Somaliland and the Somali Region in Ethiopia. Somaliland is now a major labour-exporting country that has become heavily dependent on remittances provided by the large migrant and refugee population.

The impact of remittances on home countries is a subject of considerable debate (Adams 1989, Elbradawi and Rocha 1992, Glytos 1993, Gustafsson and Makonnen 1994). The popular view in the majority of the literature has been 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 have generally failed to contribute to development. However, more recently the negative view of developmental impact of remittance flows has been challenged of focusing mainly on first-round effects, while ignoring the multiplier effects that sometimes lead to increase in demand much larger than the original value of transfers.

### 1. The size of remittance flows

Two studies have attempted to estimate the size of remittances. The first, which was 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 US$ 478 - 540 million. Because of close proximity to the Gulf, the majority of Somali 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 Somaliland Ministry of Planning (1998) carried out the second study in 1997 as part of a two-year development plan. 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 US$ 93 million for transfers channelled through remittance agents. 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 odd figures quoted in the international agency reports. A USAID report, for instance, reported total annual remittances to Somaliland of around $4 million, 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 (usually US dollars) 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 number of migrants and refugees. Nor is there any information about the remittance behaviour of the migrant population. Third, Hawaalado that are responsible for a significant part of the transfers sometimes deliberately underestimate the size of the flows for fear of government interference in the form of taxes or new regulations. They may also underestimate in an attempt to influence policy in relation to international aid. For example, some Hawaalado misled researchers that 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.

With these caveats in mind, information from four sources has been used to provide estimates of remittance flows. The most important data is provided by a questionnaire survey of 116 households carried out in 1998/99. Households were randomly selected from recipients of remittances in Hargeisa. Interviews with leading money transfer agents have also provided important data on both the amount of money that goes through these channels and details of individual transfers. Additional data has been obtained from the telecommunication companies and airport travel statistics. These data provide reasonably good estimates of remittances consistent with the other studies and transfers to similar countries such as Eritrea and Sudan.

The average annual remittances received by households is estimated to be US$ 4,170, although the distribution is highly skewed due to large sums of money received by a small proportion of households. There are also great variations of amounts received by households who rely entirely on remittance, those who primarily depend on remittances but have other sources of income and those that remittances provide only a small proportion of their income. Remittances are largely concentrated in urban centres. A relatively large transfer per household is often provided by more than one migrant. Up to 35 per cent of the recipients reported receiving money from two to eight different migrants in different locations. For example, one respondent received money from family members and relatives from 11 countries.

With an estimated 120,000 recipient households throughout the country, the overall annual remittance is estimated to be $500 million. This is roughly four times the value of merchandise exports. When Saudi government imposed a ban on export of livestock many predicted a collapse of international trade and market exchange. Underestimating the volume of remittances, it was thought that the shortage of hard currency needed to finance imports would spell a disaster for the country. Fourteen months of this ban has hardly affected the volume imports largely because remittances financed the entire import.

Because of recent changes in the demographic structure of migrants, an increasing proportion of remitters is now women. The survey data shows that close to 40 per cent of those who remitted money are women (reported by respondents as their sisters, daughters, mothers and wives). Most of them are either in Europe or North America. It is particularly 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.

Remittances are channelled through increasing number of money transfer companies and traders, although large sums are sometimes hand-carried by migrants and their relatives when they visit the country. Transfers through Hawaalado are particularly common for regular remittances sent to support families. This system has largely replaced the traditional arrangements that used to involve traders who collected money in the Gulf to finance imports. The availability of telephones and better transportation links to the Gulf has fostered communication between migrants and those in the home country and has facilitated the money transfer. The increasing networks of Hawaalado agents in all overseas countries with substantial migrant population have now made money transfer much more efficient and simpler. The companies charge commissions of up to 6 per cent depending on the amount. With the largest network of agents, Dahab Shiil is the leading company that transfers remittances to Somaliland. It has established a reputation of the most trusted company. Barakaat is the second largest company and has recently captured a significant share of the market. There are also 9 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. Because of good security many people also feel safe to hand-carry their money when they visit home. The commission structure of remittance companies 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.

**2. Sources of remittances**

Traditionally the Gulf countries used to be 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 in particular was the most important source.

However, the refugee influx since the war in 1988 has significantly altered the migrant population and the source of remittances. Although Saudi Arabia is the leading source, the UK has replaced it as the country with the largest Somaliland population outside the home country and the second most important source of remittance. Moreover, while the migrant population in Saudi Arabia and other Gulf countries is falling due to the localisation of the 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, USA, Sweden, Denmark, Norway, Qatar, Finland, Kuwait, Australia and Djibouti.

These changes have important implications for the future of remittances. 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 their family and to invest in construction and productive assets. Most them intend to return home after many years of work in the Gulf. Only those who were prepared to work under often-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.

On the other hand, migrants in the West are mainly refugees who were forced to leave their country, mostly for 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 migrant population in Saudi Arabia are men, but the figure is less than 40 per cent in the UK. Furthermore, as many as half of the refugee in the UK have now either permanent residence or citizenship (Ahmed 1998), but less than 5 per cent 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 income (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 more or less similar welfare and wage structure). For example, the average amounts remitted by refugees in the UK and Holland (heartland of Qat) are much lower than those sent by migrants in Finland (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 higher default rate of 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.

**3. Economic impact of remittances**

Have remittance flows contributed to economic recovery and regeneration? To assess the effects 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 at large. The first is positive because the large flow of remittances has provided secure livelihoods for thousands of families. In urban towns many people enjoy a high standard of living that would not have been possible in the absence of remittances. However, the latter depends largely on whether remittance flows have been transformed into productive investments. Although there is no detailed data to prove the positive multiplier effects of remittance, there is amble evidence that it has contributed to the rapid growth of international trade. An important effect of remittances in urban towns in particular has been the establishment of highly successful telecommunication, travel and money transfer enterprises that now rival the traditional trade-based businesses. Moreover, the large proportion of remittances used for immediate consumption has also created increased demand for consumer goods. In what is often termed as the 'Dubai syndrome' conspicuous consumption habits of many urban households has created a booming market for imported consumer goods.

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 (or Dutch disease). The brain drain has reduced the productive capacity of the country at a time when the need for skilled and professional workforce was most critical. The serious shortage is further compounded by the absence of educational opportunities beyond secondary school level and a whole generation of age +20 whose education was disrupted by a decade of conflict. These are the groups who would have now replaced the 'greying' civil servants.

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

As mentioned above, remittances have also been associated with what is generally known as the 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 nontradables leading to an increase in the relative price of nontraded goods to traded goods. In particular the spending effects of remittances and Qat trade have had a distortionary effects on real wages, resulting in at least five-fold increase of wages since the late 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-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 creation 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 the 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 lack of banking facility, migrants maintain some savings abroad with the intention to bring it back when they return or visit the country.

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