

Hansen, Peter

Working Paper

Migrant transfers as a development tool: The case of Somalialand

DIIS Working Paper, No. 2004:15

Provided in Cooperation with:

Danish Institute for International Studies (DIIS), Copenhagen

Suggested Citation: Hansen, Peter (2004) : Migrant transfers as a development tool: The case of Somalialand, DIIS Working Paper, No. 2004:15, ISBN 8776050335, Danish Institute for International Studies (DIIS), Copenhagen

This Version is available at:

<https://hdl.handle.net/10419/84608>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



DANISH INSTITUTE FOR INTERNATIONAL STUDIES

STRANDGADE 56 • 1401 COPENHAGEN K • DENMARK

TEL +45 32 69 87 87 • diis@diis.dk • www.diis.dk

MIGRANT TRANSFERS AS A DEVELOPMENT TOOL
THE CASE OF SOMALILAND

Peter Hansen

DIIS Working Paper no 2004/15

DANISH INSTITUTE FOR INTERNATIONAL STUDIES

© Copenhagen 2004
Danish Institute for International Studies, DIIS
Strandgade 56, DK-1401 Copenhagen, Denmark
Ph: +45 32 69 87 87
Fax: +45 32 69 87 00
E-mails: diis@diis.dk
Web: www.diis.dk
Cover Design: Carsten Schiøler
Printed in Denmark by Vesterkopi AS

ISBN: 87-7605-033-5

Price: DKK 25.00 (VAT included)
DIIS publications can be downloaded
free of charge from www.diis.dk

Contents

Abstract.....	3
1. Introduction.....	4
2. The Somaliland Diaspora.....	5
3. Remittances to Somaliland.....	7
4. The Social Distribution of Remittances.....	8
5. Forms of Diasporic Engagement	9
6. Financial Institutions in Somaliland	12
7. Economic Challenges in Somaliland.....	15
8. Development Opportunities	17
References	20

This Paper was prepared by the Department of Globalisation and Governance Research at the Danish Institute for International Studies (DIIS) for the Danish International Development Assistance (Danida) entity of the Royal Danish Ministry of Foreign Affairs, and forms part of the Migration-Development Nexus Follow-up Study. It was discussed at a workshop in Copenhagen March 9, 2004, and subsequently revised for publication.

Abstract

This paper examines the relationship between migration and development in the context of Somaliland, where an estimated 25-40 per cent of the population receive regular remittances from abroad. The importance of remittances to the local economy and the impact of diaspora activities on local development are the main focus of the paper. In distinguishing four main waves of migration the paper presents a short history of the formation of the Somali diaspora. The paper also estimates the volume, importance and social distribution of individual and collective remittances to Somaliland. Finally the paper gives an overview of the functioning financial institutions in Somaliland and identifies the challenges ahead for an economy that is heavily dependent on remittances.

I. Introduction

This paper examines the relationship between migration and development in the context of Somaliland, where an estimated 25-40 per cent of the population receive regular remittances from abroad. As in many other parts of the developing world, remittances constitute an important contribution to the livelihood of Somali families throughout the Horn of Africa. Although substantial parts of remittances are spent on family consumption, constructing houses and the establishment of smaller businesses, it does appear that they are also being increasingly used to fund new organizations and development projects. Somali organizations established abroad invest in health and educational facilities such as hospitals, schools and universities. With virtually no existing public services, both individual family remittances and collective donations by diaspora organizations are crucial for the survival and future of Somalis in Somaliland. The importance of remittances to the local economy and the impact of diaspora activities on local development are the main focus of this paper.

Although there has been a surge in interest in and writing on Somaliland, not least on the part of humanitarian agencies involved in the area, statistics on remittances and diaspora involvement remain scarce and imprecise. Therefore, this paper will not be using exact economic indicators to measure the importance of remittances on the development in Somaliland. Instead, it will aim to describe some of the issues that are relevant to future analyses of the migration–development nexus by first describing the composition and historical development of the Somali diaspora. That diaspora can be divided into a relatively resourceful group of Somalis residing in Europe and North America, and a more marginalized group of Somalis living in neighbouring countries like Ethiopia, Djibouti, Kenya and Yemen. The development impact of the scattered Somali diasporas on the development in Somaliland clearly depends on the resources mobilized in these different settings.

In Section 2, the paper distinguishes four main historical waves of migration. Based on the available data, Section 3 estimates the volume and relative importance of individual and collective remittances to Somaliland. The following section demonstrates that these remittances are unevenly distributed, as most of them flow to the cities and the middle classes. However, it also shows that it is not only the transfer of money that is important to Somaliland's future development, but also social remittances in the form of human resources. Section 5, therefore, looks at non-monetary transfers such as knowledge and expertise.

Remittance companies are the only functioning financial institutions in Somaliland. Section 6 gives an overview of these companies and describes their activities and organization. The seventh and final section identifies some of the challenges ahead for an economy that is heavily dependent on remittances.

In addition to a desk study carried out in December 2003, the author conducted five months of fieldwork on return migration in Somaliland from mid-June to mid-November 2003, including interviews with local authorities, representatives of international agencies and Dahabshiil.

2. The Somaliland Diaspora

Migration is often said to be at the heart of Somali nomadic culture. Lewis (1994) describes the livelihoods of Somali pastoralists as being characterized by strategies of mobility and dispersal that make survival possible in an extremely harsh climate. Marshal (1996) also points to the centrality of migration in Somali culture, which he then characterizes in terms of its subsistence economy, use of trade to procure necessities not domestically produced, and trans-humance to adapt to climatic cycles in search of pastures. As such, Somalis form part of a nomadic culture of locating and moving between different sites that offer livelihood opportunities. Current remittances to Somaliland are the result of Somalis migrating for better employment and educational opportunities and, more recently, in search of safety.

Four waves of Somali out-migration can be distinguished:

1. The Somali diaspora grows out of a long tradition of labour migration. Some of the first Somalis to leave the Horn of Africa to work abroad were seamen, who since the early twentieth century went to Europe, America, Russia or Arab countries to work in the maritime trade (Cassanelli 1982: 260). Today, after sailing the world's oceans for almost a century, several retired seamen have settled in cities like Cardiff and Copenhagen, while others have returned to live in the Somali-inhabited area of the Horn of Africa.
2. A second wave began at the start of the 1960s, when a large number of Somalis migrated to the Middle East and the Gulf states to work in the booming oil-driven economies. Today, the many Somalis who remained in the Gulf and in Arab countries are facing difficulties. Employment opportunities have declined dramatically and most migrants

(Somalis as well as other foreign nationals) are either faced with poor legal status or have been forced to leave.

3. A third wave consists of Somalis who migrated for the purpose of education. During the 1970s, young Somalis went to North America, Europe and Russia to work towards university degrees. Today, in part owing to the difficulties of travelling to any Western country on a Somali passport, and partly because of problems of access to and the cost of education, a large number of resourceful Somalis are turning to India and Pakistan for university degrees.
4. The largest number of Somalis to leave the Horn of Africa have done so because of civil war and political unrest. In the 1980s, many Somalis left the country and applied for political asylum in the West while others, the majority, fled across the border into eastern Ethiopia. In 1988 civil war broke out on a larger scale than ever before in the history of Somalia. Hundreds of thousands of refugees fled across the borders to Ethiopia, Djibouti and Yemen, and farther afield to Europe and North America. Following the defeat of the Somali government forces and the declaration of the independence of Somaliland in May 1991, large numbers of refugees left the camps in Ethiopia and Djibouti and went back to what was left of the homes and possessions they had fled so abruptly three years earlier. But while the war was coming to an end in the northern part of Somalia at the beginning of 1991, it broke out on a large scale in the south, again causing people to flee their homes. Somalis from the south fled to neighbouring countries like Kenya and Ethiopia, farther afield to Europe and North America, or to the Republic of Somaliland.

Due to the difficulties of identifying who is a refugee and who is not, as well as double counting on the part of governments and international organizations, statistics on refugees and migrants in the Somali context are highly dubious. Out of a total Somali refugee population of 425,455 (at the end of 2002), UNHCR estimates that approximately 155,000 were living in Kenya, 38,000 in Ethiopia, 20,000 in Djibouti, 81,000 in Yemen, 34,000 in North America, 33,000 in Great Britain and 10,000 in Denmark (UNHCR 2003). In relation to Somaliland, it is often said that half the population lives outside its borders. For people in Somaliland, the past fifteen years and more have meant numerous displacements across borders, leaving the entire population (estimated at around 3.5 million) as either repatriating refugees or internally displaced persons.

3. Remittances to Somaliland

International remittances fall into four categories, namely family remittances, small-scale investments, large-scale international investments and donations from diaspora organizations:

1. Members of the Somali diaspora remit money to contribute towards the livelihoods of their families in Somaliland. Remittances range from US\$ 100 to US\$ 500 per month. The money is mainly spent on consumption, education and health.
2. Remittances are also invested in land, housing and business development. Most often such investments do not exceed US\$ 50,000 but, in a few instances, they are known to have been as high as US\$ 100,000.
3. Diaspora capital is also distributed outside Somalia, mainly in trading activities on international markets. These transactions typically involve amounts of over US\$ 500,000 (Omer 2003: 12-13).
4. Finally, remittances flow in the form of collective donations made by organizations created by the diaspora (see Box 1).

Compared to the volume of family and business flows to Somaliland, collective remittances are quite negligible. One-third of all remittances are thought to be channelled towards investment in construction and related business activities. The remaining two-thirds directly contribute towards the livelihoods of more than a quarter of all households in Hargeisa (King 2003: 13-25).

Although a number of observers have questioned the amounts of money supposedly being remitted, they all agree that remittances are crucial to the population of what is one of the world's poorest countries. GDP per capita in the former Republic of Somalia was estimated to have declined from US\$ 280 in 1989 to US\$ 266 in 2001, and the vast majority of the population lives below the poverty line. Although enrolment rates in primary schools have gone up, the overall adult literacy rate is estimated to have declined from 24 per cent in 1989 to 17.1 per cent in 2001. Health standards are among the poorest in Africa. Life expectancy is 47 years and almost a quarter of all children die before the age of five. The human development index has declined from 0.30 to 0.28, placing the former Republic of Somalia near the bottom of all countries in terms of human development (UNDP 2003a). In sum, the former

Republic of Somalia is one of the poorest countries in the world, with an estimated 43 per cent of the population in 2002 living in extreme poverty (defined as the proportion of the population living on less than 1 US dollar a day measured at purchasing power parity), while over 73 per cent of the population live in general poverty (defined as the number of people living on 2 US dollars a day; UNDP 2003b: 24-25).

Some authorities estimate that 25 per cent of all families in the former Somalia receive remittances from abroad, while others put the figure as high as 40 per cent (KPMG 2003: 16-17). It is hard to overestimate the importance of remittances for food security. Although almost half of the population survives on less than one dollar a day, the injection of hard currency from abroad enables to import staple foodstuffs such as rice, sugar and flour. The evidence suggests that remittances benefit not only the individual households in immediate receipt of them, but also friends and members of extended family and clan networks.

4. The Social Distribution of Remittances

Access to remittances is not shared equally by all Somalis in Somaliland. As already noted, most financial remittances flow to the cities and the middle classes. This pattern is closely linked to patterns of migration and, thus, the socio-economic composition of the Somali diaspora. In order to leave the Horn of Africa to seek employment or refuge in Europe or North America, a substantial amount of money is needed, which is often mobilized collectively by family members in Somaliland and the diaspora. This means that only families who already have access to financial resources are able to establish themselves in the West and send remittances from there. Poorer families may not have access to the resources needed to travel even within their own area.

A recent study of the food economy of households in Hargeisa divides them into four groups (King 2003):

- 'Very poor' households
- 'Poor' households
- 'Middle group' households
- 'Better off' households

The first category of 'very poor' households (typically consisting of seven persons) earns less than US\$ 2.25 a day. The second category of 'poor' households earns less than US\$ 3 a day.

Together, very poor and poor households make up 20-25 per cent of all households in Hargeisa. Usually the 'very poor' and 'poor' have no direct access to remittances from abroad but rely on begging and on gifts from members of their immediate and extended families. The report shows that gifts are a common source of food and cash income for the 'very poor' and 'poor' households. Gifts of cash of US\$ 15 per month were frequently mentioned in the case of 'poor' households with no access to international remittances (*ibid.*: 6). The third category of 'middle group' households earns between US\$ 3 and US\$ 10 a day and constitutes about 40-60 per cent of all households in Hargeisa. Income sources for the 'middle group' include skilled labour, mid-level employment in the government, NGOs and other organizations and private companies, mid-level petty trade and remittances. The last source of income is common in this wealth group, and some households in the 'middle group' rely solely on remittances. The fourth, 'better-off' group, earns more than US\$ 10 a day and represents about 10-15 per cent of all households in Hargeisa. This group includes households that have invested in large-scale business, property and vehicles and/or are senior employees in the government, NGOs or other organizations (King 2003: 6-7).

The fact that remittances flow first and foremost to urban areas does not necessarily mean that rural areas do not benefit from such transfers. Among the ways in which urban remittances may filter down to rural areas should be mentioned: i) that rural landholders residing in urban areas may invest remittances in seasonal crop cultivation; ii) urban residents may invest in livestock in rural areas; iii) urban residents may spend remittances on buying rural products (charcoal, firewood, milk, crops and livestock) for urban consumption and, finally, iv) extended families may consist of both urban and rural dwellers and distribute remittances among them.

5. Forms of Diasporic Engagement

Apart from remitting money, the diaspora has been engaged in local realities in Somaliland for many years. The establishment of an armed resistance movement against the former Somali dictator Siad Barre was organized by Somalis of the diaspora. During the civil war, the diaspora sent money, blankets, medicine and other supplies to Ethiopia to help the fighting militias. Since the toppling of Siad Barre in 1991, Somalilanders in the diaspora have become involved in conflict resolution and development projects. Today, the Somaliland diaspora is heavily involved in political, economic and judicial processes.

Box 1. Social remittances: The place of the Somaliland Forum

The Somaliland Forum exemplifies how not only monetary remittances, but also political and social engagements by the wider diaspora are important to the development of Somaliland. The Forum is an independent organization bringing together 400 Somalilanders living in the West. The Forum started as a discussion group on the Internet. It later developed into an organization that has become involved in Somaliland through collective remittances for development projects and politically motivated activities in both Somaliland and Europe and North America. Members of the Forum believe in a sovereign and independent Somaliland. Its mission statement mentions as a central aim of the Forum to fight for a peaceful, united, democratic, just and prosperous Somaliland; to encourage and participate in the implementation of sustainable development in Somaliland; to monitor the dynamics of regional politics, and to formulate agendas for actions that protect Somaliland and its people in the best possible ways. The Forum describes itself as an organization working with Somalilanders around the world, its main premise being that the most important resource for the future development of Somaliland are the human resources scattered in the diaspora.

The Forum sponsors public programmes benefiting a wide range of needs such as education, health and infrastructure. The Forum has supported the reconstruction of Farah Omar Secondary School in Hargeisa, Burao General Hospital, Hargeisa Orphanage Center, Edna Adan Maternity Hospital in Hargeisa, Las Anod Hospital, and Amoud and Hargeisa University. In addition, the Forum has donated school supplies to the Ministry of Education. The Forum also follows regional and local politics in Somaliland and actively comments on political processes leading towards the democratization of Somaliland. Finally, the Forum works to promote international recognition of Somaliland, for example by writing campaign letters to the United Nations or organizing demonstrations in New York, Ottawa and London. In 1998, the Forum was active in the efforts to fight the ban on the import of livestock from Somaliland imposed by the Saudi government.

Since 1997 many Somalis have returned to Somaliland. Another tangible way of analysing how the Somali diaspora engages in Somaliland is to examine the different groups of Somali returnees from the West. A brief overview of Somali returnees is presented below:

One large group of Somalilanders from the Western diaspora is employed within the 'development industry'. Since the collapse of the government and public services in Somalia, there has been a rapid growth in the number of local and international NGOs. In Somaliland, NGOs have played vital roles in processes of rehabilitation and reconciliation. Returnees within the 'development industry' have been very important in transferring ideas and knowledge from the West to a country that has suffered from a severe brain drain over the past 25 years. They have been crucial in establishing a civil society and raising issues relating to human rights,

minority rights, good governance, the environment and the position and role of women in the society.

A second group of diasporic Somalilanders have become involved in Somaliland in the context of its political and bureaucratic circles (ministers, director-generals, political spokespersons and people from the diaspora wishing to become involved in politics). A minister in Somaliland is paid only approximately US\$300 a month. These returnees therefore often rely on their own savings, profits from investments in private businesses or remittances sent from the West. To return to Somaliland and engage in politics there, one needs to be very well connected to the local realities. This, of course, poses a challenge to people who often have lived in the West for more than ten years.

A third important form of diasporic engagement concerns the private business sector. Somalilanders from the diaspora are currently engaged in opening small-scale businesses, such as restaurants, beauty salons, transport companies, supermarkets and vending kiosks. Compared to starting a private business abroad, the capital needed to start a restaurant or open a small shop in Somaliland is relatively modest. Partly because of the absence of a functioning state with its financial, economic and social institutions, the private business sector has grown tremendously in Somaliland. Even though Somaliland has the most stable administration in the former Republic of Somalia, traditional government services such as the provision of education, health services and electricity have largely been taken over by private companies or at least have been privatized in practice. Somaliland may not officially be a state providing these services, but, in fact, Somaliland is a free trade zone where it is possible to import and export goods almost without taxation. Many Somalilanders from the West come to invest in the supposedly booming and unregulated economy. Their investments have created jobs and stimulated the provision of services.

Today, land presents one of the few tangible assets in Somaliland. A fourth form of diasporic engagement, therefore, relates to securing ownership of, or buying plots of land in Somaliland's major cities. Following the rapid urbanization, people are now fighting (and killing each other) for land. Before the war and among the nomadic Somalilanders, camels, wells and grazing rights used to be the only assets worth fighting and killing for. Today, one of the most common reasons for conflict between families relates to arguments over who owns a plot of land.

A fifth form of diasporic engagement relates to people visiting Somaliland during their holidays. Some of these visitors may come to visit their spouses and children living in Somaliland

with the aim of planning a future family reunion in the West. Others may come to look for future spouses, to meet friends and family members they have not seen for several years or out of 'curiosity' or to chew *chat*. Within this group, there may be several 'potential returnees' who are spending their holidays in Somaliland to see whether it is possible for them to live there more permanently.

The last group of returnees to be mentioned consists of young Somalilanders. They have either returned voluntarily to learn something about Somali culture and history, or they may have been forcibly sent back to Somaliland by their parents to learn how to behave in a way that is acceptable according to their parents' interpretation of Somali culture. The number of young Somalilanders who are sent back to Somaliland for corrective education is difficult to estimate, but several cases for this purpose have been reported for Denmark alone.

6. Financial Institutions in Somaliland

As a result of the collapse of the Somali state and the Somali commercial banking system, formal financial institutions still do not function or even exist at all in Somaliland, and access to credit and other financial services is limited (KPMG 2003: 7). The Bank of Somaliland, which officially works as both a central bank and a commercial bank, is generally not trusted by the public and it functions more as a government treasury than as a modern regulating central bank (*ibid*: 72). Even if a strong central government with a strong central banking system were to be established in Somaliland, the remittance system would remain an integral part of the Somaliland economy for the foreseeable future. First, as opposed to a government bank, the remittance companies are trusted by their customers and by people in Somaliland in general. Secondly, the remittance companies have an extensive network of agents who are able to service almost all Somalis, regardless of where they live. Third, remittance operations are more efficient than other financial services. Fourth, using remittance companies is cheaper than using the banks (Omer 2002).

Three factors have influenced the recent growth in remittance companies in Somalia and Somaliland in the 1980s and 1990s: the increased dispersal of Somalis, technological advances in the telecommunications sector, and the emerging trade sector (KPMG 2003: 15). Estimates of the volume of remittances vary. To Somaliland alone estimates range from US\$ 4 million to US\$ 500 million annually (Ahmed 2000: 383). To Somalia as a whole, estimates range from US\$ 120 million annually (Montclos 2000: 13) to US\$ 1 billion in 2000 (KPMG 2003: 15). It was estimated that in 2000 US\$ 9.6 million were remitted to Somalis in the former Republic of

Somalia from Denmark alone (Montclos 2000: 17). The Ministry of Planning in Somaliland conducted a study in 1997 and estimated that US\$ 93 million were being transferred annually through remittance companies to Somaliland (Ahmed 2000: 382). Today there are at least fourteen informal remittance companies and one formal remittance company, Western Union, in Somaliland.

A remittance company is basically a company that enables people to transfer money to and out of their homeland. In Somaliland, remittance companies are called *xawilaado*. The *xawilaad* system is informal in the sense of not being under government control and of managing transfers between people who know or are related to each other. Scholars have variously referred to informal money transfer systems as, for example, 'underground banking systems'. However, this is not a correct description, since these systems are not necessarily underground but often operate quite openly. It is also wrong to call these systems 'banking systems', since they typically do not involve traditional banking practices. In Somaliland today, however, the largest remittance company, Dahabshiil (see Box 2), does provide services that are similar to those offered by banks.

Alongside the informal remittance companies there are formal ones that are registered international financial actors. A well-known example of a formal remittance company is Western Union, which has a global network of 150,000 agents in 190 countries worldwide. Western Union has an office in Somaliland, but owing to its relatively high charges, most people use the informal remittance companies. However, the distinction between formal and informal remittance companies is becoming increasingly blurred. Following the 11 September 2001 attacks in the US, informal remittance companies have been targeted and closed since they were seen as enabling international terrorists to fund their terrorist activities through remittances from North America and Europe. Consequently, on 7 November 2001, the largest remittance company in Somalia and Somaliland at the time, Al-Barakat, was practically closed down by the US because of its alleged connections with international terrorism. Traditionally, informal remittance companies in Somaliland have worked without any government control or registration, nor any well-developed record-keeping of their customers and financial transactions. Today, they are working towards formalizing their activities by increasing accountability and thus establishing themselves as actors in the formal banking sector.

The way the remittance companies operate is simple. Each has agents in various countries throughout the world. A Somali living in Denmark, for example, will contact an agent of the remittance company in Denmark and present the cash to be sent to Somaliland. Depending on the size and formality of the remittance company, the agent may have an office or take care

of the transfer through the use of a personal mobile telephone and a private computer with Internet access. Upon presenting the cash to the agent, the remitter will pay a fee and supply the agent with information about the recipient. In the case of Somalis, besides the recipient's name, this information will contain information about the individual's clan identity. The agent then deposits the cash in a local bank account in Denmark and asks for a transfer to the remittance company's bank account in either Djibouti or Dubai. At the same time, the agent e-mails or faxes details of the amount and the recipient to the clearing house (where all transfers are controlled and distributed to their respective destinations), who will contact the agent closest to where the recipient lives and deliver the amount in US dollars. The transfer is then complete (Omer 2002: 9). International money transfers rely on highly sophisticated technology and use the existing international banking system for the transfer of currencies. In most cases, money transferred through remittance companies reaches the recipient in Somaliland within 72 hours (*ibid.*: 12).

Box 2. Dahabshiil Pvt. Ltd. Co.

With an estimated 70 per cent market share, Dahabshiil is the largest informal remittance company in Somaliland (King 2003: 26). Dahabshiil was founded in Burao in 1968 as a company importing building materials, shoes and clothes to Somalia. Its money transfer service first started in 1988, with the mass exodus of Somalis from present-day Somaliland to Ethiopia and Djibouti. Today, remittances are the principal business of Dahabshiil. Besides transferring money, Dahabshiil continues its import and exports activities and has expanded to include a construction, postal and telecommunications company. Dahabshiil is the largest private-sector employer in Somalia and Somaliland and has over a thousand employees. The company has offices in 34 countries worldwide, with 400 branches in total, including 25 branches in the United States, 50 in the United Kingdom and two in Denmark. In 1995, Dahabshiil opened a branch in Mogadishu and currently there are more than twenty offices in the capital of the former Republic of Somalia (Marchal 2000: 22-3).

According to the management at Dahabshiil's headquarters in Hargeisa, there are eighteen branches in Hargeisa holding more than 6,000 deposit bank accounts in total and handling more than 12,000 transfers per month. The management estimates that Dahabshiil remits US\$ 292 million to Somaliland and Somalia annually, US\$ 72 million to Hargeisa alone, US\$ 24 million of which it sends annually from Hargeisa to Dubai and Djibouti for business purposes. The management also estimates that 70 per cent of remittances have a value of between US\$ 100 and US\$ 500 and that these are used for consumption, while the remaining

30 per cent exceed US\$ 500 to be invested in houses, land, businesses or small development projects.

An individual who is not a customer already known to Dahabshiil will have to give a detailed account of clan identity, and sign several documents attesting to his or her identity when claiming money that has been remitted or wishing to open a deposit account. Moreover, the individual will have to be accompanied by a trustworthy and respectable relative able to vouch for the stated identity by signing a letter of guarantee to be retained by Dahabshiil. According to the management, these procedures are not that complicated or time-consuming, since they already know almost all of their customers. Following September 11, 2001, the management of Dahabshiil drew up a comprehensive strategy to deliver banking facilities and meet international demands for accountability and transparency in the remittance business (Marchal 2000: 23).

Besides making a profit on a variety of economic activities, Dahabshiil also funds development projects and assists a variety of institutions and events in Somaliland. For example, the company has donated money to Hargeisa University and assisted in funding a conference on reconstruction in Somaliland.

7. Economic Challenges in Somaliland

Despite the fear that the closing down of Al-Barakat would cause a severe hardship to people in Somaliland, international financial transfers to Somaliland have not declined. Quite the contrary, remittance companies have noticed an increase in the period between 1998 and 2003. It can therefore be concluded that remittances have grown in importance to the economy of Somaliland, as well as for the survival of thousands of Somalilanders. Several problems and challenges are nevertheless connected with the continued dependence on international remittances.

First, most remittances are spent on consumption. Somaliland is mostly semi-arid and the country only produces and exports livestock (camels, sheep and goats). Almost all other food products are imported. The consumption of imported goods will not benefit the local economy. However, it must also be stressed that remittances are also invested in private businesses in Somaliland.

The second challenge relates to the fact that the local economy is without a legal or regulatory framework. Initially this had a positive effect on the creation of relatively small private investments in Somaliland. Today, however, the private business sector is nevertheless stagnating, its growth hindered for much the same reasons for which people had initially invested in Somaliland. Without enforced rules and regulations, common standards, quality control or a formal banking system, financial services and regulatory bodies, large investments in the Somaliland economy will decline (UNDP 2003: 8).

In business affairs, as in many other social matters in Somaliland, clan alliances and identities are very important. Capital for investment is often only generated within the extended family network and investment flows across boundaries determined by clan loyalties are very rare. As a result, the accumulation of large amounts of money through the business merger of different clan families is virtually non-existent in Somaliland. The business culture in Somaliland is a reflection of society more generally, which is one where loyalties and identities are often heavily defined by clan affiliation. The importance of clan identity increased during the civil war in the former Somalia, and has emerged as an important principle in establishing trustworthy social relations. Without laws and a well-functioning judicial system, people look for trustworthy business partners within their own extended family whom they already trust. Over time, this may lead to new clan-based conflicts.

The dependence of many households on international remittances send by the Somaliland diaspora poses a third challenge for the future. Today it is the first generation of Somali refugees and migrants who have settled in Europe and North America who remit money. When this first generation dies or stops sending remittances for other reasons, it is not at all clear whether the second generation will take over the responsibility of remitting money to their family and friends in Somaliland. The second generation of Somalis in the diaspora may be more focused on life in the West and therefore cease sending remittances. Remitters and recipients are usually closely related. One survey estimates that 93 per cent of all remittances take place within the 'nuclear family' (Ahmed 2000: 384). In other words, Somalis in the diaspora mostly remit money to their brothers, sisters, sons, daughters, fathers, husbands, wives and mothers. In only 3 per cent of cases do Somalis remit money to family members who are not part of the immediate family. When Somalis in the diaspora no longer have any immediate family members living in Somaliland, they may not feel any obligation to remit money to other, more distant family members. This will not be a problem if the Somali diaspora proves able to 'renew' itself through the continued movement of first-generation migrants and refugees. However, given that it is becoming increasingly difficult for Somalis to enter Europe

or North America as asylum-seekers or through family reunification, the current level of remittances to Somaliland is likely to decline.

Finally, the problem of the chewing of *chat* should be mentioned. Many remittances are simply used for the consumption of *chat*. Since the civil war, *chat* is consumed by almost all men in Somaliland. It is estimated that US\$ 100 million is spent on *chat* every year in Somaliland. Apart from the fact that the *chat* consumed in Somaliland is grown in Ethiopia and therefore does not benefit the Somaliland economy, the long-term consequences of a male population chewing *chat* are also very severe.

8. Development Opportunities

As pointed out in the previous sections, the Somali diaspora and its organizations have become involved in the democratisation and development of Somaliland through the mobile livelihood strategies pursued by the Somali diaspora, the monetary and other remittances they send home, the organizational and lobbying activities in which they engage and their possible return or repatriation. In partnership with Somaliland and diaspora organizations, development agencies could work towards:

- securing open transfer channels and cutting the cost of money transfers;
- encouraging the diaspora to organize itself within larger umbrella organizations, for the purpose of investing in community development initiatives;
- securing the rights of Somali migrants and refugees;
- striking a balance between assisting those migrants wishing to return to do so, and accommodating those who can contribute more by remaining abroad. The latter may involve programmes of 'staggered' return.

Regarding remittances, it is clear that monetary transfers from abroad are crucial for the livelihood of many people in Somaliland. Remittance companies are also important for the current economy in Somaliland. An initial challenge facing future development efforts in Somaliland is to ensure that the remittance sector will not be closed down because of accusations of its being linked to international terrorism. To counter the possibility of such charges being made, the international community should engage in a dialogue with the remittance sector in Somaliland with a view to increasing its level of accountability and formality.

In understanding the correlation between migration, remittances and development, social remittances are also very important. People come to Somaliland bringing money and human resources that are vital to its effective functioning and future. They bring knowledge on how to run a private company, start up an NGO or form political parties, and they also engage in local discussions about democratisation and human rights. Somalilanders living in the West may engage in local developmental processes without necessarily actually returning to Somaliland, for example by forming associations to collect their own funds and by securing additional funds for development projects in Somaliland by lobbying western donors. Such efforts should be encouraged, as should consolidation into larger umbrella organizations that include several clans.

Remittances and the diaspora in general are playing a crucial role in Somaliland today. However, there are also problems in having a population and a society that is so heavily dependent on remittances. First of all, as already noted, the Somali diaspora may not continue to send remittances to Somaliland. Demographic and attitudinal changes within the diaspora might result in changed practices in this regard. A decrease in remittances to Somaliland will have severe consequences for the livelihood of many families there and for the economy more generally. A second problem relates to the fact, already noted, that most remittances flow to urban centres and the middle classes. A very large number of poor and rural households in Somaliland have very limited access to remittances and still depend to a large extent on gifts from wealthier family members and thus on a tradition of collective burden-sharing. Not only in relation to the question of access to remittances, but also more generally, one of the tendencies to be observed in Somaliland today is for the population to divide itself into those who are and those who are not involved in globalization trends. Social, cultural and economic inequalities in Somaliland are increasing every day because of uneven access to and knowledge of globalizing processes (travel, information, education, jobs, etc.). One of the major challenges of future development projects is to focus on the poor who have no direct access to remittances.

Another major challenge is to engage the diaspora more actively in the political reconstruction of Somaliland and the transfer of democratic principles to government spheres. Many of the most resourceful and educated Somalilanders returning from the diaspora find employment within civil society and do not work for the Somaliland government. There are two reasons for this. First of all, it is difficult for diaspora members who are not well connected locally to return to Somaliland and engage in a political field that is very much tied to local realities. Second, politics in Somaliland is not automatically a profitable business. Jobs within the 'development industry' are better paid and comparatively easier for the mobile Somaliland diaspora in the West to access. It should therefore be recommended that future development

initiatives aim at directing parts of the ‘reversed brain drain’ into governmental and bureaucratic spheres. Only by establishing a well-functioning local government and trustworthy state institutions can an investment culture transcending clan loyalties and creating greater job opportunities for the population as a whole in Somaliland become a reality.

Cooperation between sending and receiving countries is essential in ensuring that migration benefits all parties. The ongoing debate on security highlights the importance of developing measures that will ensure the better integration of regular migrants into their host societies.

In the Somaliland context, it also seems to be relevant to link integration policies with flexible residence and citizenship rights. Such rights would allow Somalilanders to return home without prejudicing their right to stay in the host countries. ‘Staggered’ return with continued access to resources abroad will facilitate local reintegration and, significantly, allow smaller and medium-scale business enterprises to survive in a national context of extreme poverty.

References

Ahmed, Ismail

2000 "Remittances and Their Economic Impact in Post-war Somaliland". *Disasters* 24(4): 380-389.

Cassanelli, Lee v.

1982 *The Shaping of Somali Society: Restructuring the History of a Pastoral People 1600 – 1900*. University of Pennsylvania Press.

King, A.

2003 *Hargeisa Urban Household Economy Assessment*. (<http://www.reliefweb.int/library/documents/2003/fews-som-16may.pdf>), FEWS Net. FSAU, Save the Children UK, Municipality of Hargeisa, Candlelight.

KPMG

2003 *Feasibility Study on Financial Services in Somalia*. Nairobi: UNDP & EC. (<http://www.so.undp.org/Remittance/Report%20V.15.10%20FINAL%20REPORT.pdf>)

Lewis, I. M.

1994 *Blood and Bon. The Call of Kinship in Somali Society*. Red Sea Press.

Marchal, R

2002 *A Survey of Mogadishu's Economy*. Nairobi: European Commission/Somali Unit. (<http://www.delken.cec.eu.int/en/publications/Mogadishu%20Economic%20Survey-Final%20Report.pdf>)

Montclos, M. A. Perouse de and P. M. Kagwanja

2000 "Refugee Camps or Cities? The Socio-economic Dynamics of the Dadaab and Kakuma Camps in Northern Kenya". *Journal of Refugee Studies* 13(2): 205-222.

Omer, A.

2002 *A Report on Supporting Systems and Procedures for Effective Regulation and Monitoring of Somali Remittance Companies (Hawala)*. UNDP Somalia. (<http://www.so.undp.org/Remittance/ssp-hawala.pdf>)

UNDP

2003a Country Re-Engagement Note. (<http://www.worldbank.org/afr/so/somaliaext.pdf>)

2003b Socio-Economic Survey 2002. Somalia. Report No. 1. Somalia Watching Brief.

2003. (<http://www.so.undp.org/SoconRpt.htm>)

UNHCR

2003 *2002 Annual Statistical report: Somalia*. Geneva: UNHCR. (<http://www.unhcr.ch>)