



Remittances and Vulnerability in Somalia

BY NISAR MAJID WITH KHALIF ABDIRAHMAN AND SHAMSA HASSAN

Key points

- Remittances act as a crucial safety net for many Somalis, but there are significant variations in the amounts and frequency of transfers and who receives them. Surveys indicate that a majority of Somali households do not benefit directly from remittances.
- Variations are marked in the locations where remittances are more commonly found, between urban and rural households and geographically. Northern areas appear to receive more on average than those in the south.
- Remittances are an important factor in determining the resilience of different communities, and relative levels of inequality in Somalia. The uneven impact of remittances made some communities more vulnerable to famine in 2011.
- Access to credit is enhanced by remittances. They increase the purchasing power of households and diversify the nutritional intake of families. Aid agencies and donors engaged in food and cash-based assistance programmes in Somalia need a clearer understanding of the influence of remittances on household resilience, and how to build on their positive impact.

Introduction

The importance of remittances to the household economy across Somalia is well-recognized. What is less well understood is the relationship between remittances and the relative vulnerability of certain communities, particularly to drought and food insecurity. This briefing outlines the key features and the marked variations of the remittance

landscape in Somalia. It also analyses how remittances are used by families to improve food security, particularly through access to credit.¹

Amounts and frequency of remittances

In 2016, remittances to Somalia were estimated to amount to USD 1.4bn per year and comprised the largest single category of external financial support that entered the country (equivalent to 23 per cent of Somalia's GDP). Overseas Development Assistance (ODA), for 2016, was £1.3bn.² Yet only an estimated 40 per cent of the population receive remittances.³ For these households, monthly remittance receipts range from USD 50 to more than USD 300, with an overall monthly average income from remittances of USD 229.

Remittances tend to be based around individual relationships, with only a minority of people receiving money from more than one source. Such dependency on a single person means that recipients can be vulnerable to an unexpected breakdown of the relationship with the source, or change in their material circumstances that affects their ability to remit funds.⁴ Furthermore, flows from Europe and the United States have, in recent years, been influenced by changes in banking regulations and security procedures that have affected money transfer operators (MTOs).⁵ This has increased the costs associated with money transfers, requiring remittance senders to use alternative methods.

The contribution remittances make to the overall household income and expenditure fluctuates greatly. It may be broadly categorised into those that are sent regularly (typically monthly) and those that are sent occasionally, on a non-regular or ad-hoc basis (see Figure 1).

As indicated in Figure 1, over 40 per cent of remittance receiving households surveyed received

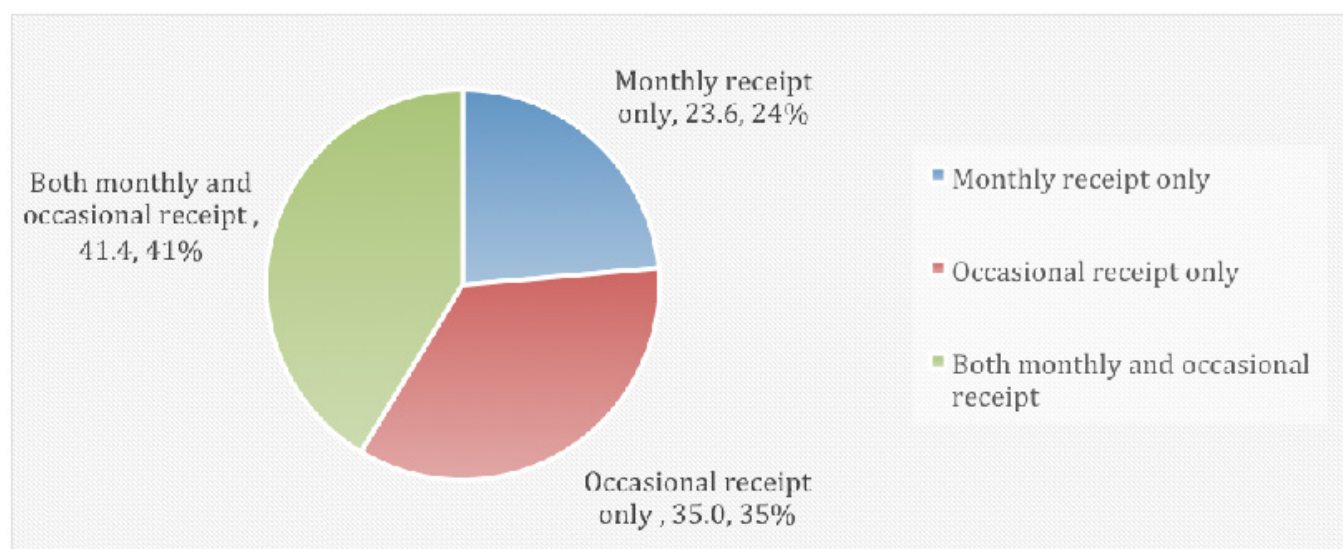


Figure 1. Frequency of receipt of remittance

them on a monthly *and* occasional (ad-hoc) basis. Supplements to regular (monthly) receipts come at specific times of the year, especially during the Eid festivals and Ramadan. Additional amounts may also be requested for specific purposes—recurring reasons are illnesses or other health issues and climate-related stress (particularly drought).

Nearly 24 per cent of households surveyed received remittances solely on a monthly basis, meaning that in total 65 per cent of households that receive remittances do so on at least a monthly basis—creating a regular and predictable income source.⁶ Yet, 35 per cent of those households who receive remittances only receive them occasionally—including at times of livelihood stress and during Ramadan and Eid—and cannot rely on them as a dependable financial resource. This is an important point of difference between households surveyed.

More tellingly, it is rurally-based families, and pastoralist households in particular, who make up the largest category of those who receive remittances on an occasional basis only. This is in contrast to urban households, where only 28 per cent report receiving remittances solely on an occasional basis, with the remaining 72 per cent receiving them regularly (and occasionally). In other words, for one group of households remittances are a regular source of income, adding a financial predictability to their economies (including improved access to credit), whereas for households that receive occasional remittances, they act more as an insurance mechanism.

Regional and clan dimensions to remittances

There are distinct correlations between the average levels of remittances sent and the regions in which there are received. Northern areas—Somaliland and Puntland—receive on average USD 254 per month, whereas southern areas—excluding the cities of Mogadishu and Kismayo—receive USD 191, a significantly lower monthly total.

Broadly speaking, populations who do not benefit from remittances are disproportionately found in the south, where there is a larger rural population, and where structurally marginalized and ethnic-minority populations are more numerous.⁷ This regional inequality was considered an important factor in how the dynamics of the Somalia famine of 2011 developed—with remittance receiving communities being less vulnerable to famine.⁸

There is also a clear link between the spatial distribution of remittances and the temporal dimensions of migration. Simply put, populations who out-migrated first predominantly came from the north of the country—particularly Somaliland and Puntland. These diaspora populations are now well established in the United States and Europe (the UK in particular). These patterns have been further entrenched by subsequent migration, which is facilitated by remittance transfers from existing migrant communities in host countries and other formal processes—including family reunification programmes.

The broad regional variations also show further local contrasts in relation to the socio-economic profile of particular clans and lineages. During the 2017 drought and associated humanitarian crisis, when this study was being conducted, three of the main clans in El Berde, northern Bakool—the Ogaden, Reer Hassan and Rahanweyn—demonstrated contrasting abilities to mobilise external support, and by implication levels of resilience.

Two of the main resident clans—the large and dominant Ogaden and the small but well-connected Reer Hassan—were able to raise funds abroad, due to their historical migration patterns and the size of their current diaspora populations.⁹ The Rahanweyn—agro-pastoralists whose communal identity is based on a combination of family-lineage and land-based vicinage—response was markedly less successful.

As a small, highly urbanised, tightly knit and generally well-educated clan, the Reer Hassan were able to mobilize diaspora support at the family level and at the overarching clan-community level, with members being called upon to contribute from Europe, Kenya and North America. The much larger Ogaden clans, whose lineage divisions are far more extensive, only received support between smaller family units rather than through a wider mobilization at the overall clan-community level. The Rahanweyn, whose family structures are looser than both the Reer Hassan and Ogaden, and who historically have had a less prominent national political profile, and whose diaspora is smaller and

less well entrenched, raised comparatively little money from abroad.

Remittances, access to credit and food security

Remittances fund or contribute to different aspects of the household economy, including in health, education, business and property investments. All Somalis, however, whether rural, pastoral, urban and diaspora, overwhelmingly associate their importance with improving access to food (see Figure 2). While this is widely acknowledged, there is limited understanding of precisely how this improvement occurs. Evidence gathered here indicates that remittances enable the purchase of greater quantities and a greater diversity of food, both of which are linked to improved access to credit.

The impact of remittances on access to food is marked in the increased purchase of both ‘dry’ goods—typically rice, flour, sugar, cooking oil, powdered milk and dry pasta—and ‘wet’ food—fresh food, such as meat, milk, fruit and vegetables.¹⁰ The implication of this for household food security and nutrition is important, as it suggests that the quantity and quality of the household diet is improved due to the increased financial resources provided by remittances.

Dry foods are usually bought in small shops and grocery stores, with which the purchaser has a long-term debt-credit relationship. A trader based in Kalabayka in Somaliland, who sells different dry food items, such as rice, pasta, flour and

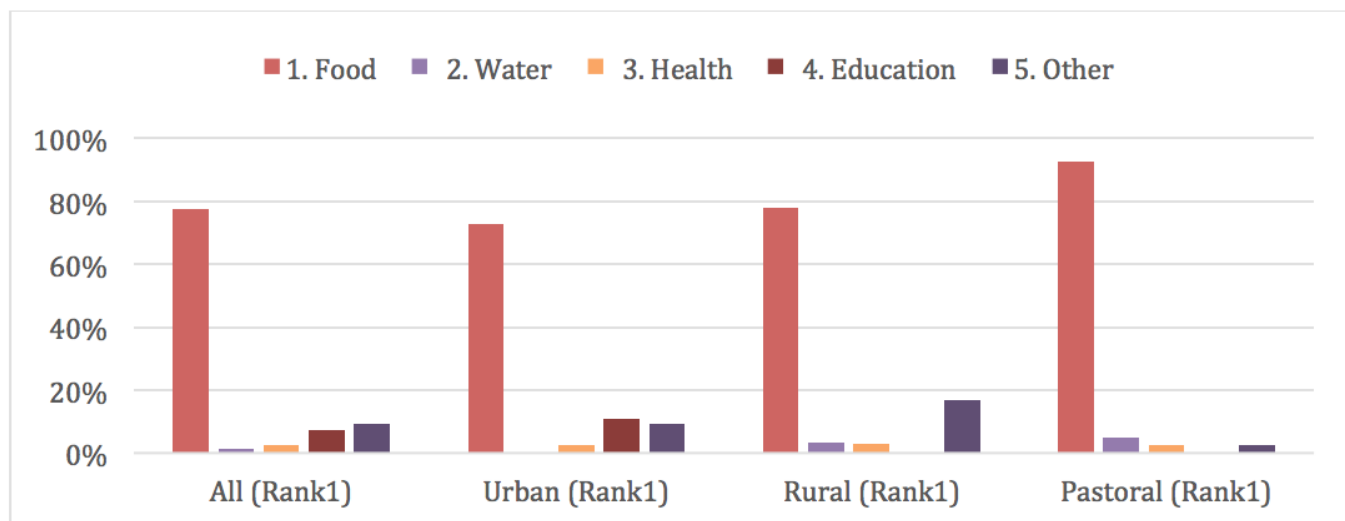


Figure 2. Ranking of remittance uses

other goods, explains the impact of receiving remittances:

When the family starts receiving money from abroad first is when you can notice a difference. ... Certainly, the amount of food they purchase almost doubles when they first start receiving money from abroad. You can see the difference in their faces as well. They will look better, will wear better clothes and even appear more confident. They will have more guests as a result and increase the variety of food they buy.¹¹

Receipt of regular monthly remittances improves the possibility of gaining access to credit, which is likely to contribute to improvements in food security. In the absence of a formal banking system, the debt-credit relationship is a particularly important feature of the Somali economy and society, extending to business relations between Somalis and to non-Somali actors in wider trade and business networks.¹²

The debt-credit relationship has a strong basis in the traditions of the pastoralist economy. Given the seasonal nature of income and expenditure among pastoralists, these groups commonly access food and other goods from traders during the dry season, on a credit basis, when the value of their animals is low. This is on the agreement that debt is repaid once the rains come and the value of livestock increases. Trust, along with personal and clan relations, underlines these relationships.¹³

A small trader interviewed in Bardheere, in southern Gedo region, saw some parallels between the way pastoralists manage their income and expenses and the way that those who receive remittances do. He stated that:

The pastoralists always need credit until they are able to sell their animals. They will ask you to give them some supplies and they will pay you when they next sell their animals. In the same way, those who receive remittances say, 'Give me some supplies and I will pay you back when I receive money.' He further points out that, 'The pastoralists who receive remittances have an arrangement where the money is sent to a relative or a friend, who buys their supplies and sends it with the remainder as cash. Many people will receive the cash through EVC [a money transfer platform used in southern and central Somalia]. The nomads get some of their supplies from

villages nearer to them so that is why they need some cash. The bulk of the supply is taken from the bigger towns.¹⁴

Regular and occasional or on-demand receipt of remittances therefore plays an important role in smoothing out fluctuations in income and expenditure—whether on a short-term monthly cycle, or on seasonal or inter-annual basis. This is particularly important during times of humanitarian crisis, including the 2017 drought. A local trader, interviewed in Baidoa—close to some of the worst drought-affected areas—explained:

Yes, remittances make a difference in difficult times. People call me and say give so and so that much food and pay him or her that much cash. You can see people sending USD 1,000 or USD 500 to alleviate the effects of drought. They do cover a lot of needs at difficult times. You hear about people who are receiving remittances calling you and saying give so and so that much food and I will pay for it. Give him or her that much food as his children are hungry. People come to town and go to the homes of those who they know receive remittances, saying to them that they have travelled to get help from them.¹⁵

Access to credit depends on different factors. Again, clan identity and the clan relationship between lender and borrower is one important variable, as this is bound up in relations of mutual obligation and can also serve to provide a guarantee of repayment. Personal relations, character (reliability) and ability to pay (economic assets owned) are additional factors. One local trader stated:

Those who receive money from abroad will [get] credit because they have the means to repay, at least by the end of the month. They also buy more so they are the best customers. They do take a lot of goods on credit and then when they receive their money at the end of the month they pay us. Some of them leave their cash with us when they receive it and they take daily cash.

In my case, there are about 30 families that leave their money with me at the beginning of the month and take goods and cash throughout the month. I do provide credit to many of my customers. People are different and we know each other. The income, the clan and trustworthiness are all important factors in giving loans or credit.

With the people we trust and think can repay, we simply open a book for them in which all the items they take are entered. If a person had a problem and needed to use all of his or her income or remittance that month, we might allow him or her to pay at the end of next month. Many people bring their money to the shop in cash (dollars) upfront every month and then take *bill*¹⁶ daily (as well as monthly), food items and whatever they need cash or goods for during the month. The difference will be settled every month.¹⁷

Conclusion

Remittances act as a crucial informal safety net for many Somalis. They protect people from resorting to more harmful coping strategies—such as reducing household food intake and selling household assets—and also improve their ability to meet their basic needs on a monthly basis, including in relation to the quantity and quality of their diet.

Remittances appear to act in two significantly different ways, depending on the frequency with which they are received. When received on a regular basis, they improve access to credit and contribute to the smoothing out of income and expenditure cycles. When only received on an occasional basis, they act more as an insurance mechanism in times of stress. Despite the clear benefits in alleviating food insecurity, the impacts are markedly uneven, regionally and socially (including clan-wise) and perpetuate patterns of structural inequality.

Those involved in humanitarian assistance in Somalia, or considering the development of resilience or larger social protection programmes, would benefit from understanding these dynamics more deeply. To this end, further research could be conducted among households that do not receive remittances, or only irregularly (particularly in southern Somalia), to understand the reasons for low levels of remittances, as well as the relative impact compared to areas where remittances are more prevalent.

Notes

1 The study from which this briefing is drawn included 237 household interviews, 38 focus groups discussions and 50 key informant interviews in different areas of Somalia and Somaliland, including members of the Somali diaspora and experts and aid agencies in Nairobi, Kenya. The study used qualitative methods and the remittance receipt figures were not generated through a statistically representative sample and so should be taken as indicative only. Unless otherwise specified, survey data is derived from this study.

2 Federal Government of Somalia, 'Aid flows in Somalia', April 2017, 4.

3 The most comprehensive household survey on this subject found that 41 per cent of its sample, covering both urban and rural areas, received remittances. This survey was only conducted in Somaliland and Puntland where the proportion of households receiving remittances is generally considered higher than for southern Somalia. See 'Family Ties: Remittances and Livelihood Support in Somaliland and Puntland', *Food Security and Nutrition Analysis Unit*, 5 June 2013, 12-13.

4 Individual relationships are located within wider family and kinship relationships which may mitigate this apparent vulnerability.

5 In 2014 Barclays Bank threatened to close its account with Dahabshiil—the largest Somali MTO—due to a perceived lack of

strong anti-money laundering systems. At the time, Barclays was the only major UK bank holding Somali MTO accounts. Dahabshiil won an injunction to reverse the decision and has been working with UK authorities to create safe corridors for channelling remittances. In Kenya, Somali MTO offices were closed for three months in 2015 following a major attack by the Somali Islamist group, al-Shabaab.

6 Monthly flows are influenced by various factors, such as the disposable income of the sender, or the fact that a recipient has other income, sufficient overall income or receives money from different sources.

7 There is no survey that captures the relative proportion of remittances received in different regions of the country. However, anecdotal evidence and migratory patterns strongly suggest that northern areas (Somaliland and Puntland) receive a proportionally greater share of remittances and have a greater proportion of the population receiving remittances, than in the south. The only national survey available was conducted in the late 1980s and found that over half of remittances to Somalia were received in Somaliland alone. See Ismail. I. Ahmed, 'Remittances and their impact in post-war Somaliland', *Disasters*, 2000, 24 (4) 380-389.

8 Daniel Maxwell and Nisar Majid, *Famine in Somalia: Competing Imperatives, Collective Failures*, 2011-12, London: Hurst, 2016.

9 The Reer Hassan are also identified as a religious lineage group.

10 Some respondents used the words ‘wet’ to distinguish daily purchased foods in contrast to ‘dry’ meaning monthly purchased food.

11 Interview with local trader, Kalabayka, Somaliland, November 2016.

12 Sherine El Taraboulsi-McCarthy, Nisar Majid, and Barnaby Willits-King, *Private sector engagement in complex emergencies: Case studies from Yemen and southern Somalia*, Humanitarian Policy Group, London: Overseas Development Institute, 2017; Neil Carrier, *Little Mogadishu: Eastleigh, Nairobi’s global Somali hub*, London: Hurst, 2017.

13 Peter Little, *Somalia: Economy without State*. Indiana: Indiana University Press, 2003.

14 Interview with small trader, Bardheere, southern Gedo region, March 2017.

15 Interview with trader, Baidoa, February 2017.

16 *Biiil* refers to general household expenses, which may or may not include foodstuff.

17 Interview with local trader, El Berde, March 2017.



Credits

This briefing is an additional public output from the Rift Valley Institute’s work with the World Bank on remittances and vulnerability in Somalia, summarizing some its key findings. The main output of the work was a report—*Remittances and Vulnerability in Somalia: Assessing sources, uses and delivery mechanisms*—delivered in May 2017 and written by Nisar Majid, Khalif Abdirahman and Shamsa Hassan. The briefing is written by Nisar Majid with editorial support provided by the Rift Valley Institute. It is available for free download from www.riftvalley.net

The Rift Valley Institute works in eastern and central Africa to bring local knowledge to bear on social, political and economic development.

Copyright © Rift Valley Institute 2018. This work is published under a Creative Commons Attribution-NonCommercial-NoDerivatives License (CC BY-NC-ND 4.0).