

# Somali Poverty and Vulnerability Assessment

*Findings for Wave 2 of the Somali High Frequency Survey*

## Summary of Chapter 6: Remittances

Complex Somali mobility patterns include migration out of, into, and from rural areas to urban parts of the country

**Somalia is the fourth highest refugee country of origin.**<sup>1</sup> Somali migrants and refugees living outside Somalia reached more than 2 million in 2017, doubling since 1990.<sup>2</sup> Somalis primarily migrate to Kenya, Ethiopia, Yemen, Libya, UK, Djibouti, the U.S., and Sweden, in descending order. Before the 1990s, Somali migration had focused on the Arabian Peninsula and the Persian Gulf. Mobility patterns shifted in the 1990s when civil war erupted and Somalis fled to various destinations outside Africa, including the U.S. where Somali refugee arrivals increased from 6,969 in 2007 to 9,020 in 2016. In Africa, about 835,900 Somali refugees are displaced. Migrants and refugees continue to follow routes from Southern, North-Eastern, and North-Western Somali regions to the Gulf of Aden looking for better opportunities and security.

**Somalia also hosts millions of IDPs and thousands of refugees, asylum seekers, and migrants.** Somalia hosts more than 1.1 million IDPs, 116,040 returnees, 15,259 refugees, 14,885 asylum seekers and 44,868 migrants.<sup>3</sup> A total of 4,293 Somali refugees returned to Somalia in the first three months of 2018. Since the Voluntary Repatriation program began in December 2014, 81,030 refugees repatriated.<sup>4</sup> Recent conflict in Yemen has created new Yemeni refugees to Somalia.

Remittances are vital for the Somali economy

**Remittances represent Somalia's major source of external development finance.** Remittances represented 20 percent of GDP in 2017.<sup>5</sup> Remittances contribute to international reserves, help finance imports, and improve Somalia's current account position. Somali migrants send on average \$1.3 billion per year based on International Monetary Fund estimates, likely well below actual volume due to informal flows, implying a need to improve remittance data collection.

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<sup>1</sup> UNHCR (2017).

<sup>2</sup> World Bank (2018).

<sup>3</sup> World Bank (2018); UNDESA (2017); UNHCR (2018a).

<sup>4</sup> UNHCR (2018a).

<sup>5</sup> International Monetary Fund (2018).

*Selected economic indicators, 2015–2018 (percent of GDP)*

|                         | 2016 (estimated) | 2017 (projected) | 2018 (projected) |
|-------------------------|------------------|------------------|------------------|
| Real GDP Growth         | 2.4              | 1.8              | 2.5              |
| Current Account Balance | -6.3             | -6.7             | -7.2             |
| Trade Balance           | -46.2            | -50.5            | -45.8            |
| Remittances             | 19.6             | 20.6             | 19.5             |
| Grants                  | 20.8             | 23.7             | 19.5             |
| External Debt           | 74.5             | 71.5             | ...              |
| Nominal GDP in US\$     | 6,887            | 7,382            | 7,781            |

Source: Somali Authorities and Fund staff estimations and projections. Taken from the 2017 Article IV Consultation.

**In Somalia, remittances are more stable than foreign direct investment and official aid.** Remittance inflows are more than three times the size of foreign direct investment and equal to grants and official aid to Somalia. In addition, remittances are often countercyclical, helping to sustain consumption and investment during economic downturns, contributing to resource stability for poor Somalis. Sustained international support and remittances helped drought-affected Somalia avoid severe humanitarian crisis as well as to finance its trade deficit in 2017.<sup>6</sup>

**It is also important to note, however, that large and sustained remittance inflows can make manufacturing less profitable.** Like other sources of exogenous foreign exchange, such as development assistance, remittance inflows can contribute to appreciation of the real exchange rate, making tradeable goods production less competitive overall, and perhaps making low-cost manufacturing unprofitable.

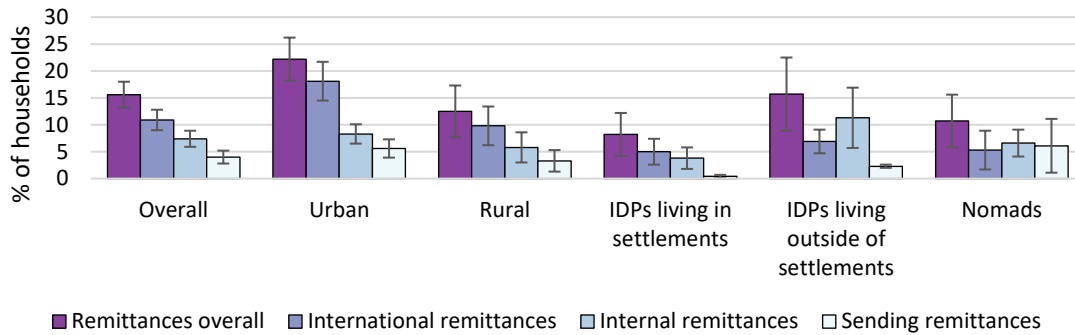
Remittances, particularly from international sources, are vital to development and poverty management in Somalia

**Somali households are both remittance receivers and senders, and it is important to distinguish between domestic and international remittances.** About 15 percent of Somali households receive remittances, while 4 percent send them. Urban households are more likely to receive international remittances, while IDPs living outside settlements are more likely to receive internal remittances. Few of the many IDP households in settlements receive remittances.

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<sup>6</sup> IMF (2018b).

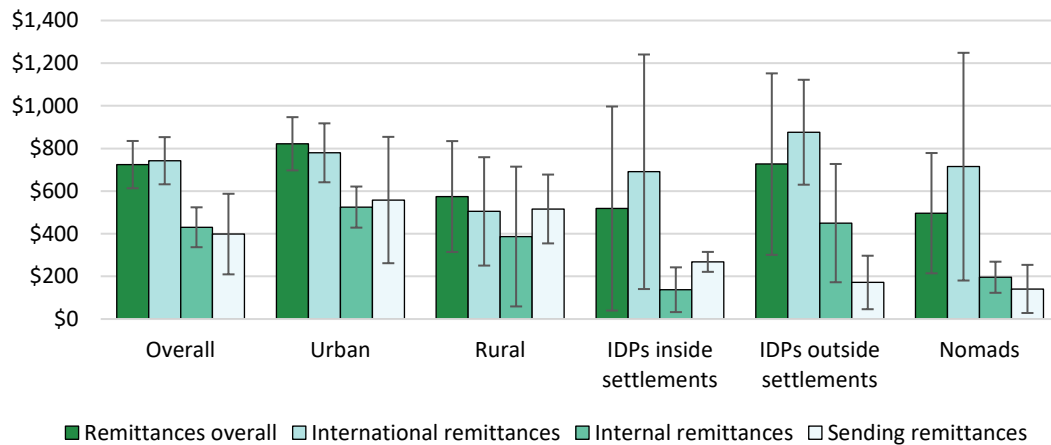
*Incidence of remittance receipt and sending*



Source: Authors' calculations based on the SHFS 2017-18

**Urban households also receive the largest average amount of international remittances, followed by IDPs living outside settlements.** Average amount of international remittances received per household per year is US\$ 743—above the average per capita income of Somalia of US\$ 535 for 2017. Amount of remittances households receive varies from US\$505 to US\$876 for international remittances to US\$138 to US\$525 for domestic remittances. IDP households outside settlements receive a relatively high US\$ 430 for domestic remittances and US\$ 876 for international remittances, possibly in response to the drought. IDPs living outside settlements reported more exposure to drought (70 percent) compared to the IDPs living in settlements (46 percent). Rural areas are more drought affected, but remoteness and lack of MTOs makes it difficult to send remittances.

*Average annual value of remittance received and sent*

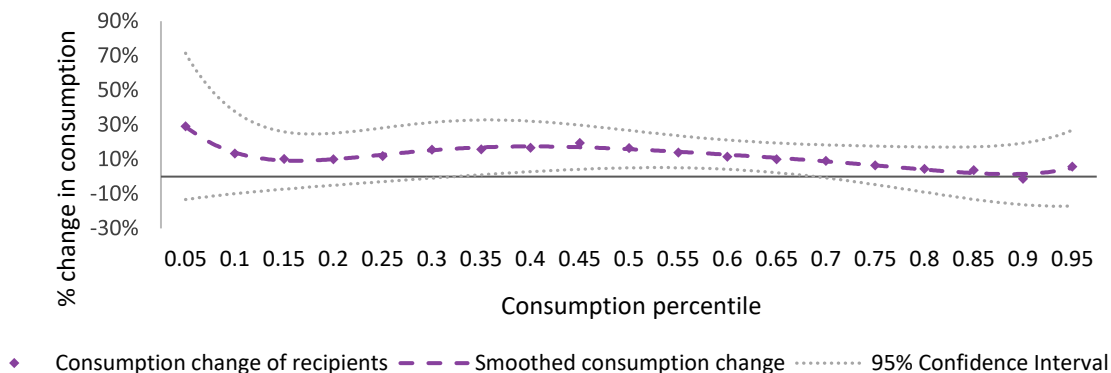


Source: Authors' calculations based on the SHFS 2017-18.

**Households receiving international remittances are less poor, consume more, have higher child school enrollment rates, and are less likely to rely on agricultural livelihoods.** About 58 percent of households receiving international remittances are poor compare to 71 percent of households that do not.

Households receiving international remittances from outside Africa may have high incomes since these remittances tend to be larger than from domestic or other African sources.

*International remittances impact on consumption*



Source: Authors' calculations based on the SHFS 2017-18.

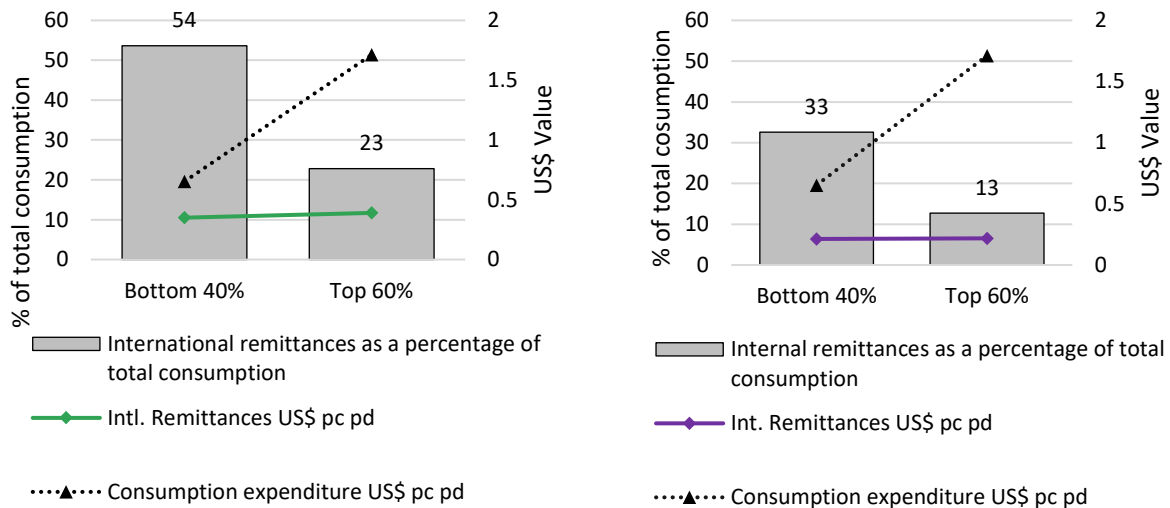
*Characteristics of remittance-recipient households*

|   | Internal Remittances | International Remittances | Do not receive remittances |
|---|----------------------|---------------------------|----------------------------|
| Poverty   | 64%                  | 58%                       | 71%                        |
| Consumption expenditure (2017 PPP US\$ per capita per day)    | \$1.35               | \$1.41                    | \$1.25                     |
| Consumption expenditure (2017 PPP US\$ per household per day) | \$7.40               | \$7.63                    | \$6.66                     |
| Enrollment (6–17 years)                                       | 48%                  | 60%                       | 33%                        |
| Labor force participation (7 days)                            | 54%                  | 46%                       | 47%                        |
| Female household head   | 36%                  | 45%                       | 42%                        |

Source: Authors' calculations based on the SHFS 2017-18.

**Both internal and international remittances are relatively more important for the bottom 40 percent.** Overall international remittances received per capita per day are almost the same amount for the bottom 40 percent (US\$ 0.35) as the upper 60 percent (US\$ 0.39). However, income from international remittances represents 54 percent of total consumption for the bottom 40 percent households, while representing only 23 percent of total consumption for the upper 60 percent.

*Remittances are more important for the bottom 40 percent*



Effective remittance markets and controlling money transfer costs are important for Somali development

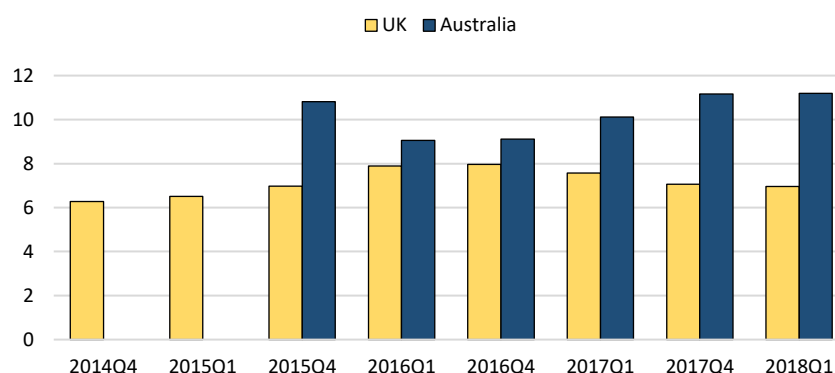
**Although underdeveloped, technology is rapidly transforming Somali remittance and financial service markets.** Following the civil war, remittances flowed mainly through the *hawala* system.<sup>7</sup> More than 20 MTOs operate in Somalia today, with the market dominated by three main players: Dahabshiil, Amal Express, and Taaj. Some MTOs have become banks, are registered as companies on the sending side (the U.S., UK, Australia, and others) and are also regulated as money transfer businesses by the Central Bank of Somalia (CBS). Domestic remittances are conducted overwhelmingly through mobile money (46 percent), money transfer operators (47 percent), and informal channels such as hand-carried during visits home and *Hawala*. International remittances are largely channeled through money transfer operators (87 percent) and mobile phone (12 percent). While having potential to vastly improve access to remittances and broader financial services, including low-cost savings and credit products, use of mobile technology is limited due to money laundering and terrorist financing concerns.

**Costs of remitting money to Somalia have increased.** Since 2001, many countries have adopted stringent Anti-Money Laundering and Combatting the Financing of Terror (AML/CFT) regulations for fund transfers. Financial institutions have “de-risked” by terminating or restricting relationships with clients perceived as high risk. Several banks in Australia, the U.S., and UK have closed money services business accounts. In the UK, remittance costs increased from 6.3 percent in the fourth quarter 2014 to 7.1 percent in fourth quarter 2017. In Australia, remittance costs increased from 9.06 percent in the first quarter 2016 to 11.2

<sup>7</sup> El Qorchi, et al. (2003).

percent in the first quarter 2018. Costs for sending remittances from the UK to Somalia are more than twice the SDG target of 3 percent, and from Australia costs are almost three times the SDG target.

*Remittance cost as a proportion of sending US\$ 200 to Somalia.*



Source: Remittances Prices Worldwide database (2018Q1).

## Policy recommendations

**Leverage remittances.** While remittances are obviously private money belonging to households, at the macro level they can help Somalia to, for instance, better access capital markets and improve its credit ratings. At the microeconomic level, they can help Somalis access new financial products such as micro-insurance, as well as fund education, food, and investments in micro and small-and-medium enterprises.

**Improve remittances data.** The Central Bank of Somalia (CBS) is working to improve statistics on remittances. The CBS can improve data collection by expanding reporting of remittances to nonbank providers of remittance services, such as money-transfer companies and mobile operators, and surveying migrants and recipient households to estimate formal and informal remittances.

**Reduce remittances costs.** Technological advances, including digital payments, have increased efficiency and contributed to reducing remittance costs. On the other hand, compliance with AML/CFT requirements have increased overall costs. Promoting policies that reduce market entry and increase competition will help decrease costs. Financial and regulatory frameworks should promote remittance cost reductions and facilitate introduction of new products, interoperability among MTOs, and establishment of open infrastructure to collect digital payments.

**Develop policies to foster mobile money usage.** Less than a third of Somalis subscribe to mobile services. Measures to encourage mobile phone use to make international remittances include: (i) harmonizing banking and telecommunications regulations to enable Somali banks to participate in mobile money transfers and for telecommunications firms to offer microdeposit and savings accounts, (ii) simplifying AML/CFT regulations for small-value transfers, and (iii) open mobile distribution networks to international remittance-service providers instead of only MTOs and country-based mobile money services. The CBS is preparing mobile money regulations.

**Facilitate financial inclusion.** Access to financial products, facilitated by remittances, helps reduce poverty. Basic savings accounts, small savings deposits, and payment processing can link to remittances. Remitters could use new financial products such as microinsurance or direct tuition payments. Identification cards are important for both sending and receiving countries. In Somalia, issuance of a digital ID for financial services will help comply with Know-Your Client regulations and increase access to finance. For Somalis residing outside the country, IDs will facilitate access to financial institutions and aid.

**Take advantage of Heavily Indebted Poor Countries (HIPC) status.** Somalia is eligible for debt relief under HIPC to facilitate use of funds on programs to benefit the poor. Facilitating access to concessional finance through debt reduction will facilitate Somalia's reconstruction. Better accounting for remittances can improve evaluation of external debt sustainability and creditworthiness. The International Monetary Fund (IMF) is helping Somalia reach debt relief under HIPC as soon as feasible within HIPC procedures, including preparation of a Poverty Reduction Strategic Paper (PRSP).<sup>8</sup> Remittances could be included in preparation of the debt sustainability analysis as per the latest guidance.

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<sup>8</sup> IMF (2018a).