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The American University in Cairo
School of Humanities and Social Science

**Diaspora-Driven Development in Stateless Somalia:
All Relationships are Local Relationships**

A Thesis Submitted to

The Department of Political Science

In partial fulfillment of the requirements
for the degree of Master of Arts

by Joseph Alan Scheibel

B.A. in Government and International Politics, George Mason University

under the supervision of
Dr. Ibrahim Elnur

May, 2009

The American University in Cairo

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This thesis is dedicated to my Grandpa Jack.

I am pretty sure he would have been proud as I am about it.

ABSTRACT

The American University in Cairo

Diaspora-Driven Development in Stateless Somalia: All Relationships are Local Relationships

By Joseph Alan Scheibel

Under the Supervision of Dr. Ibrahim Elnur

Abstract: In the wake of state collapse, Somali society today has become decidedly globalized, leaning heavily on capital from its widely-dispersed diaspora funneled in through the conduits of an informal economic system for both subsistence and overall economic livelihood. Despite the great distances often separating them, Somalis remain linked by common ethnic and cultural bonds. These links are both social and economic, and are heavily reliant on telecommunications technology, a key concept discussed in this study. The Somali economy, driven largely by the widespread informal *Hawalaad* financial transfer system, bypasses the commercial and financial channels that have been voided by the lack of a state; it instead largely emphasizes societal networks and cultural norms. This study examines how the Somali commercial diaspora has made extensive use of these informal avenues to invest in their homeland.

Special attention is paid to the nature of Somali social networking; the establishment and maintenance of trust, in commercial endeavors undertaken in an unstable environment. This in turn illustrates the notion that despite unstable, often hostile conditions inhibiting most commercial endeavors in a conflict-ridden state or a state in a complex emergency situation, different segments of the Somali diaspora have come into a position to make unique contributions towards development in their homeland. While the most evident and most analyzed of these contributions are taking place in the informal finance and telecommunications sectors, this thesis also suggests a gradual expansion of diaspora endeavors into other facets of development, including transport, health, and other basic services.

This thesis argues that despite the absence of a government, Somalia's commercial diaspora has been able to not only cope and devise creative solutions to replace certain critical services lost in the vacuum left by the collapse of the government, but also in facilitating a degree of development as well. This development is shaped and directed by the endogenous cultural attributes of Somali society, and contribute to improved standards of living and livelihoods for certain sectors of Somali society that would otherwise be worse-off.

Keywords: Somalia, Somali Diaspora, Development, Telecommunications, Hawalaad

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CHAPTER 1: ALL RELATIONSHIPS ARE LOCAL RELATIONSHIPS

"We are a nation of immigrants who depend on other immigrants"

– anonymous Somali saying coined in mid-2000s

Somali society today has become decidedly globalized, leaning heavily on its wide-ranging diaspora and a largely informal economic system for subsistence and overall economic livelihood. It is interconnected by common societal bonds, but through diverse mediums which vary from the latest telecommunications technologies to neighborhood relations. Today, the lack of effective government in conjunction with far-flung migrant populations has necessitated the rise of a powerful informal economy. This informal economy bypasses the commercial and financial channels that have been voided by the lack of a state; it instead largely emphasizes societal networks and cultural norms. The Somali diaspora has made extensive use of these informal avenues, with remittances maintaining familial and clan links in a number of ways. Remittances may alternately go towards keeping a group of extended family members fed, or may be an investment in any number of diaspora-driven commercial or development endeavors.

Over the past twenty years, the role of diaspora contribution in development has become increasingly important to development practitioners and policymakers alike. Diaspora-driven endeavors in the home country manifest itself in a number of useful ways, including remittances, investment, philanthropy, home or host country lobbying

and advocacy, and international business networking. Statistics are far from exhaustive in describing any aspect of diaspora-driven development, and literature pertinent to the role diaspora in development during post-conflict periods is very limited. This is particularly true in the case of Somalia. However, the limited analysis and prognostication available is telling. According to a United Nations Development Program estimate done in 2004, approximately US\$700 million dollars had been sent back to Somalia from the diaspora each year in the four years previous, and that the totals seemed to be trending upwards. The bulk of this money is sent through almost purely informal avenues, namely the Somali *Hawalaad* informal financial transfer system which will be discussed at length in subsequent chapters.

In addition to forming a crucial pillar in the day-to-day survival and livelihood for a much of Somali society, diaspora remittances also serve as some of the largest catalysts for development on the larger, more macro-economic levels within Somalia. Even though it is always useful to distinguish the differences between economic growth and development, it is clear that development will not occur without economic growth or recovery in a post-conflict or conflicted area. Development in this study will be defined as sustained economic growth that is shaped and directed by the endogenous factors of Somali society. Those factors relate and contribute to improved standards of living and livelihoods for sectors of Somali society that would otherwise be worse-off. According to the UNDP's 2007 Millennium Development Goals for Somalia report, remittances have increasingly gone towards helping their brethren develop and expand both small and large-scale business enterprises. Diaspora

entrepreneurs have been largely responsible for the evolution of Somalia's telecommunications system. Today, Somalia has one of, if not the most, efficient and affordable telecommunications networks in Africa, with international cell phone calling rates among the lowest in the world.¹ Somalia's private sector has taken the lead in terms of providing other vital social services, including basic remittance banking and security. Additionally, water, electricity, and transport services in Somalia are provided by what would normally be described as the private sector. Within the UNDP report, it was indicated that privately provided social goods such as in the education and health care sectors are actually growing, although they remain woefully inadequate in the perpetually conflicted state. There is clearly valuable insight to be gained from research within this field, and the case study of Somalia offers a unique perspective within this critical area of study.

However, analytic forays into this phenomenal circumstance must also endeavor to avoid portraying an overly optimistic portrait of life in Somalia, especially since contemporary developments such as the continued outbreaks of violence, open Somali piracy in the Gulf of Aden and the Red Sea, and continued faltering and failure in more traditional political forums have illustrated how much more there is much to pessimistic about. Somalis constitute one of the most dispersed peoples in the world, with substantial diaspora populations on several continents. The United States Department of State reports over 67,000 Somali refugees admitted into the United States since 1980, and that figure does not account migrants who took other paths to

¹ "Somalia Calling: An Unlikely Success Story." The Economist, December 2005, 13.

the same place or for the children of Somali migrants born in United States.²

According to the United Kingdom's 2001 Census, around 43,500 Somalis were residing in the country.³ However, as with the United States, this figure is believed to be widely underestimated due to a host of factors including generational issues and underreporting on behalf of migrants living in violation of population codes. Expert estimates on the Somali population in the UK range from 95,000 to 250,000.⁴

This wide diffusion is an obvious negative reflection of Somalia's status in itself. The lifeline of informal financial transfer networks came under highly-publicized scrutiny in the initial years of the "War on Terror" era. While this negative attention died down somewhat in the mid-2000s, recent reports of diaspora involvement in destabilizing the transitional government, funding gunmen or militiamen, and contributing logistical and money-laundering support during the spate of open-water piracy occurring off of Somalia's coasts is likely to reignite security-driven inquiry into Somali diaspora-relations by migrant-hosting nations. These looming developments will likely weigh heavily against any positive progress spawned from those same societal links. However, before one can preclude the system as simply a conduit for counter-productive or destabilizing activities, it is vital to analyze it from a developmental standpoint.

² "Refugee Admissions Program for Africa: Fact Sheet February 6, 2009." US Department of State. Available from <http://www.state.gov/g/prm/rls/117279.htm>. Internet; accessed 13 April 2009.

³ "Born Abroad: An Immigration Map of Britain: Somalia." BBC News. Available from http://news.bbc.co.uk/2/shared/spl/hi/uk/05/born_abroad/countries/html/somalia.stm. Internet; accessed 13 April 2009.

⁴ Casciani, Dominic. "Somalis' Struggle in the UK." BBC News. 30 May 2006. Available from http://news.bbc.co.uk/2/hi/uk_news/magazine/5029390.stm. Accessed 13 April 2009.

1.1 Statement of Problem and Rationale of Study

It is within the unique framework of Somalia, a political void in which the economies that function are largely driven by those outside of the state, that the unique advantages and disadvantages of diaspora influence and informal economic practices within development can be most clearly highlighted. This in turn illustrates the notion that despite unstable, often hostile conditions inhibiting most commercial endeavors in a conflict-ridden state or a state in a complex emergency situation, different segments of the Somali diaspora have over time found themselves in a position to make unique contributions to reconstruction or development during perpetually difficult times.

Contemporary academic works on Somalia often invoke two starkly contradicting senses; that of economic optimism, relying wholly on Somalia's unique, constantly evolving, essentially stateless manifestation of capitalism, and the sense of political pessimism that has come to define this territory within the Horn of Africa over the past decades. An attempt must be made to address these paradoxical notions simultaneously in order for a more practical understanding to come about. This paper will seek to explain and connect the relationship between an informal economy and diaspora-driven development, with a special emphasis on the role of technological change in facilitating this relationship.

It should also be said that no matter how the relationship between those two conflicting notions plays out in academic forums, there is no arguing that the case of Somalia challenges many well-established notions within the social sciences concerning economics, governance, and institutions. Much of what is transpiring today in Somalia has clear relevance well beyond its own borders.

1.2 A Failed State and the Rise of the Informal Economy

The historical context surrounding the Somali informal economy's rise to prominence is a bleak one: the collapse of the state causes complete failure in most of the already sub-par public institutions such as hospitals and schools, creating an entire generation of children and young adults with no semblance of formal education, and harsh conditions contributing to negative sentiments and discrimination in an already highly segmented clan-based society. Within a society in which many still adhere to the traditional lifestyles of pastoral nomadism, the notion of a central state in Somalia has always been elusive. Indeed, the fall of Barre simply validated the beliefs and expectations of many Somalis both inside and outside the country. The paradox of the Somali economy has been written on extensively in recent years; it has been shown that, despite the collapse of the state and instable conditions, many sectors of the Somali economy are doing quite well, fairing better under this sort of laissez faire than they ever had during the pre-war and pre-collapse years.⁵ Clearly, this success is not

⁵ Nenova, Tatiana, and Tim Harford. "Anarchy and Investion: How Does Somalia's Private Sector Cope without Government?." *The World Bank Group Public Policy for the Private Sector*, no. 280 (2004): 1.

mirrored across all of Somali society itself, but there are certainly segments of the population benefiting from these circumstances.

It is within the avenues of an economy without a state that societal and local links at the global level have been facilitated. Existing literature has shown that some measures of economic success in post-conflict states are intrinsically correlated to diaspora activity, and the Somali case offers concrete links between diaspora and development, with those links being forged within the context of informal economic activities. This is particularly the case when one assumes that the conclusion of conflict acts as a catalyst for sending remittances, as well as serving as a green light for diaspora investment and philanthropic endeavors. While these more constructive reasons are not the sole catalysts for remittance-sending back home, analyzing this dynamic is vital to ascertaining what works in terms of stability-building and development. Dating back to the mid 1970s, there has been a perceived reciprocal relationship between modernization and diasporas. This notion was argued initially in John.A. Armstrong's article "Mobilized and Proletarian Diasporas" found in *The American Political Science Review* in 1976, and has only been reinforced in subsequent works, such as those by Devesh Kapur in 2004, Awil Mohamoud in 2006 and Manuel Orozco in 2007.

1.3 A Brief Overview of the Distribution of the Somali Diaspora:

Fluidity in living situations is a central aspect of Somali culture, as evidenced by the historic pastime of pastoral nomadism. This lifestyle traditionally involved long cycles of regular internal migration in order to adapt to the changing climates and seasonal shifts. This lifestyle has also been reinforced by today's requirements of fluidity in Somali business and trading markets, fluidity that is necessary to keep up with outside trading in order to sustain or enhance their current lifestyle.

One of the earliest Somali diasporas emerged during the period of British colonialism. Many sailors of northern Somali origin were serving in the Merchant Navy, and ended up settling permanently in the British cities of London and Cardiff.⁶ Despite migrating before the telecommunications boom and being relatively small in number, these migrants maintained their Somali identity. They remained in touch with kin still resident in Somalia and ultimately laid an important foundation for the UK Somali diaspora that would become vital to the livelihoods of a greatly increased number of persons in the coming decades.⁷

In the 1960s, a second small wave of migration occurred when a substantial percentage of supporters of the Somali Youth League, hailing particularly from the north-western Isaaq clans, were forced to leave the country after having their assets and economic mobility critically reduced. Beginning in 1973, tens of thousands of

⁶ Farah, Nurrudin. *Yesterday, Tomorrow: Voices from the Somali Diaspora*. London, UK: Cassel Publishers, 2000. 100.

⁷ Lindley, Anna. "The early morning phone call: Remittances from a refugee diaspora perspective." Centre on Migration, Policy, and Study Working Paper Series, no. 47 (2007): 5-6.

Somalis departed their homeland en route to the Arab Gulf States. Somalia quickly became a large labor exporter to the oil producing countries, and estimates on the number of labor migrants during the Gulf oil boom range between 150,000 and 200,000 Somalis. Around half of these migrants again hailed from the Isaaq clan. The labor-migration cycle continued through the 1980s, gradually ramping up in size and scope. At the end of 1987, the number of Somali migrants working in the Gulf was believed to be between 375,000 and 400,000. Most of these immigrants were fairly well-educated simply looking for better employment opportunities than could be found at home.⁸

The precursor to the next large wave of migration was set with the outbreak of the Ogaden war, in which Somali forces engaged Ethiopia in an attempt to gain control of the Ethiopian Ogaden region, which was inhabited by many ethnic Somalis. As the conflict broke out, refugees from the Ethiopian Ogaden poured into Somalia, and one estimate claims that in 1981, these refugees constituted perhaps 40 percent of Somalia's total population⁹. However, the veracity of this claim has been doubted as an exaggeration. Regardless, the opening shots of the civil war in 1988 quickly reversed this flow, with approximately 600,000 Somalis pouring into the Ethiopian Ogaden. As the war continued, hundreds of thousands of Somalis departed their homeland for neighboring nations and hosts outside of Africa. The bulk of the

⁸ Marchal, Roland. *Final Report on the Post Civil War Somali Business Class*. Paris, France: European Commission, Somali Unit, 1996.

⁹ Waldron, Sydney & Hasci, Naima. *Somali Refugees in the Horn of Africa, State of the Art Literature Review*. RSP Studies on Emergencies and Disaster Relief Report Three. Oxford, UK: Refugee Studies Programme, 1995. 4.

refugees were poorer and unable to flee much further than Kenya or Ethiopia¹⁰. However, many of the more well-off refugees, often educated or accomplished businesspeople headed to Western countries such as the UK, the United States, Netherlands, Sweden, Denmark, Italy, Canada, or Australia.

Within a rather short period of time, a noticeable networking effect began to set in. These Somali groups in the West were able to adapt to their host countries and ingrain themselves in differing capacities in those countries' commercial sectors. These early diaspora populations can be seen as an early contemporary manifestation of Castell's Network Society, wherein globalization becomes essentially an extension of trust networks.¹¹ These proto-diasporas were laying important groundwork for future waves of migrants, facilitating a much more rapid adaption to the host country with pre-existent community and employment networks. This dynamic became noticeable only a few years after the opening shots of the Ogaden War; the flow of Somali refugees to the West increased exponentially as the government in Mogadishu collapsed and civil war broke out in the early 1990s. During these waves of migration, many Somalis "piggy-backed" their way into pre-established Somali diaspora communities both in the West and in neighboring countries. Some of the notable centers of Somali diaspora include Portland, Maine; Minneapolis, Minnesota; and Tucson, Arizona in the United States, and London, England, as well as Stockholm, Sweden. Nairobi, Kenya received a huge number of Somali refugees as well. The

¹⁰ Lewis, Ioan. *Understanding Somalia: Guide to Culture, History, and Social Institutions*. London, UK: Haan Associates, 1993. 61.

¹¹ Castells, Manuel. "Toward a Sociology of the Network Society." *Contemporary Sociology*, no. 29 (2000): 694.

diaspora "infrastructure," is constantly developing, forged by smaller numbers of prior migrants to these countries. The earliest example of such diaspora "infrastructure" being implemented in the West occurred with the Somali seamen in the Merchant Navy settling mentioned previously settling in the UK.

While most of Somalia's contemporary migration flow has been intrinsically correlated to armed conflict, the flow of migration to the Arab Gulf States was sparked purely by enhanced economic opportunities. The lack of employment in Somalia in conjunction with the rapid development of the Gulf oil sector combined to create an environment in which a key pillar of the Somali diaspora was forged. In the early 1990s, the allure of migration was two-fold, encompassing both the escape from conflict at home as well as much wider economic opportunities.

In a trend that began with the oil boom in the Gulf and perhaps peaked in the mid-1980s, Somalis who had the means to migrate would do so. Refugees who were able to reach Western countries found themselves in a situation similar to Somalis in the Gulf States, in that they were looking for employment in a host land with substantially more opportunities than at home. These two trends of growth in the diaspora are where the avenues of informal economics become a staple of survival for relatives left behind in Somalia.

1.4 Diasporic Roles in Somalia Today

The role of any sizable diaspora today is wholly multifaceted, and cannot be singularly defined or categorized within a single sector. Furthermore, the Somali diaspora cannot be characterized as a singular entity with uniform motives and goals. However, in a conflict or post-conflict situation, the diaspora wields substantial influence in private, public, and non-profit capacities. This influence is augmented by the dynamic networks and relations that were already in place, such as the ethnic or clan-based networks, and also by networks spawning from the conflict itself. It should be noted that the potential benefits of commercial diaspora-driven development are great, but have often yet to be fully realized. Certain segments of the Somali diaspora, notably successful entrepreneurs and former state elites, have met limited yet interesting successes back within their homeland, and the oft-ravaged economy in a virtually lawless state has benefited immensely from remittances coming from all Somali people ranging from commercial entrepreneurs to refugees residing abroad, most of whom seem to reap benefits from comparative economic success in which country is their host.¹² Different segments of the diaspora have different capital resources, and will direct those resources to varying endeavors in Somalia, from prospective commercial investments to keeping family members fed. In subsequent chapters, the Somali-specific informal system of financial transfer, known as the *Hawalaad*, will be discussed in depth.

While Somalia's diaspora today often serves as the financial backbone of daily life for many still within the relatively ungoverned country, it is important to note that it has

¹² Campbell, Elizabeth. "Formalizing the informal economy: Somali refugee and migrant trade networks in Nairobi." *Global Migration Perspectives*, no. 47 (2005): 19.

historically played a massive role inside Somalia. This is evidenced by estimates of remittances flowing into Somalia valued at almost US\$340 million in 1985,¹³ years before the fall of Barre and at the height of the state's attempted interference in market matters. This figure alone is almost fifteen times greater than the entire country's wage bill in formal business for that year.¹⁴ While the function of diaspora in development has become increasingly important to practitioners and policy-makers alike, particularly through philanthropy, lobbying, and international business networking, the indirect-investment role of the commercial diaspora is quietly driving perhaps the most vital aspects of development within Somalia itself. Additionally, members of the diaspora frequently visit home, and exercise their political and commercial influence in person. The "Season of Diaspora" occurs between June and September, and is a phenomenon that occurs in many parts of the world besides Somalia. In 2000, the United Nations Development Program estimated that some 15,000 members of the diaspora returned to Somaliland alone for the summer,¹⁵ providing a sharp increase in revenue flow into the territory.

1.5 Tempering Optimism With Reality

¹³ Jamal, Vali. "Somalia: Understanding an Unconventional Economy." *Development and Change*, no. 19 (1988): 205.

¹⁴ Simons, Anna. *Networks of Dissolution: Somalia Undone*. Boulder, Colorado: Westview Press, 1995. 127.

¹⁵ Bradbury, Mark, Kenneth Menkhaus, and Roland Marchal. *Human Development Report Somalia 2001*. Nairobi, Kenya: United Nations Development Program, 2001. 61.

While the case of Somalia is clearly an extreme one, there is certainly valuable insight to glean that may be applicable both to other regions in the world contending with nonexistent or ineffective governance, conflict at the sub-regional level, or a faltering economy of the traditional mold. Somalia could be loosely defined as something of a "transnational territory," with so many of its citizens residing abroad and so much of its economic produced external to the geographic boundaries of the state itself. Core societal values of cultural and ethnic ties are reinforced with technology, a trend that has been noticeable in other parts of the world today. Somalia could be seen as an archetypal, yet extreme, entry along a progression from the sovereign state system to one more towards a wholly globalized society that still maintains its defined ethnic and cultural identities.

However, very important questions are raised concerning the "governance" capacity of such an unorthodox system. Indeed, it has been evidenced within the Somali case that the high flow of unregulated, unmonitored finances, information, and ideas continues to contribute to the political impasse facing the region within the traditional echelons of governance. Despite the fact that certain aspects of the Somali commercial or trading sectors have done exceedingly well in this environment, the territory is still faced with chronic political instabilities, bouts of violence, and an abysmal shortage of public institutions. Many of these widespread social, ethnic, and economic problems appear to be cyclical, and while from certain viewpoints they are becoming more manageable, the severity of the problems does not seem to actually be lessening. The unusual paradox of Somali statehood has forced the creation of alternate modes of

economics and, in doing so, created a number of unique opportunities. Some have benefited disproportionately from these opportunities, while many others have found their survival alone wholly reliant on the same opportunities. There are many more losers than winners in this system, and school-age children, women, and minority groups are the most clearly inhibited by the system in place today.

A huge number of Somalis remain outside of their homelands; many reside in squalid refugee enclaves in neighboring countries, while others have fled to Europe, North America, and the Arabian Gulf. The fact that Somalis are so widely dispersed in such high numbers, and the differences in diaspora living conditions so disparate, provides adequate testimony to the fact that things are far from well in their homeland. While this analysis will take into account the negative ramifications of the aforementioned systems and relationships, its primary goal is to explore the positive aspects and distill notions that may be beneficial in terms of understanding or encouraging development or order in other conflicted parts of the world. This information will be particularly relevant for states have far-flung diaspora populations abroad, while failing to provide basic public services and continuing to struggle with violence and control at home. The subsequent chapter in this study aims to build a conceptual framework that adequately encompasses all of these themes.

CHAPTER 2: ESTABLISHING A THEORETICAL FRAMEWORK

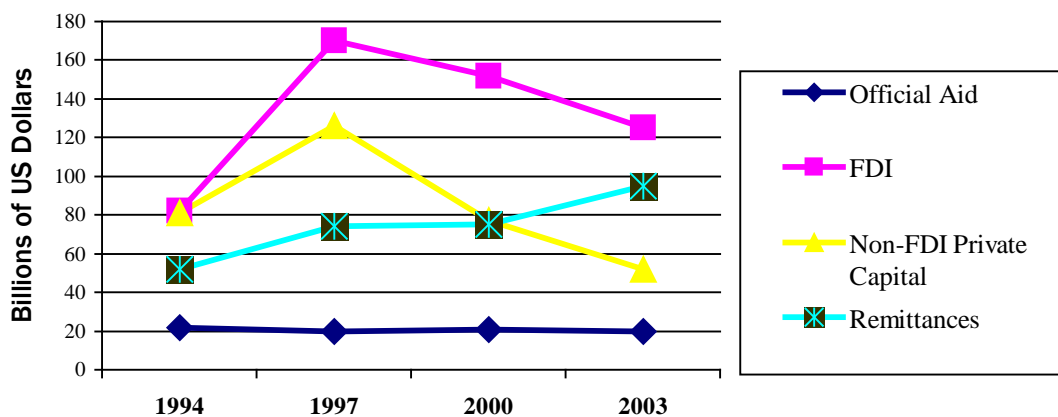
In recent years interest in the transnational activities of migrants and Somalis in particular has amplified. Adequately addressing the myriad of theoretical aspects involved with migration, remittances, and informal economies could quickly fill the pages of several volumes. This chapter attempt to address the key theoretical aspects relevant to the subject at hand, while simultaneously aspiring to encapsulate some of the more peripheral theories applicable to this study.

Within this study of the case of Somalia, relevant theories can fall into a number of frameworks; Section 2.1 will discuss the migration-development nexus, with a focus on the formation of transnational networks and remittance-sending within Somali society. Section 2.2 will explore the formal/informal dynamic in Somalia, particularly with regards to the informal financial sector and the role of the diaspora in contributing to its prevalence. Section 2.3 will examine the implications of telecommunications between diaspora relations and development, while section 2.4 will attempt to tie all of these elements together with the introduction of the Somali informal financial transfer system, a component to this study that embodies the theoretical linkages between each of the aforementioned ideas.

2.1 Migration and Remittances in Development

Throughout history, remittances have contributed to development, not only in financial terms but also in terms of knowledge, skills, and culture. An economy based on remittances rather than local production can therefore see the external actors play a much larger role in determining the trajectory of development and in certain cases, the nature of the state itself. Migrants often maintain multiple forms of ties to their home countries and home communities, and this relationship opens the door for the flow of capital and knowledge from one side to the other. According to the International Monetary Fund, the value of remittances continues to trend upwards, while foreign direct investment globally has trended down over the past decade.¹ Additionally, remittances transferred home by migrant workers abroad have been between two to four times larger than the volume of international aid since the early 1990s.²

FIGURE 1. Remittances vs. Other Capital Flow to Developing Countries³



¹ International Monetary Fund. *World Economic Outlook April 2005: Globalization and External Imbalances*. Published by International Monetary Fund Publishing Services, 2005. 70.

² Ibid.

³ Ibid.

The value of remittances often goes beyond the more easily measurable dimensions of economics. Because they generally have higher levels of education and experience, members of a diaspora have the capacity to provide valuable assistance or advice on economic priorities in reconstruction. Diaspora entrepreneurs are also key innovators, and the transfer of skills and knowledge is invaluable. Diaspora entrepreneurs are also adept at introducing new technologies to their home country, which in Somalia has been demonstrated in the telecommunications and business sectors, and to a lesser extent, the health and education sectors.⁴ In addition, sustainable business with solid financial assets allows a diaspora member to pursue development endeavors on a broader scale at home. This is noticeable in the Somali case, as the distinction between economic migrant and refugee is often fuzzy, particularly in Western countries. Many within the Somali diaspora are merchants, businessmen, or otherwise integrated commercially either within the local networks or that of their host countries.⁵

Additionally, in today's age of cheap, accessible telecommunications and increasingly affordable transportation, the act of emigrating no longer necessarily constitutes a break from the home society. However, with the unique system of clan-based ethnic ties, the notion of a societal disconnect between a migrant and the home country has never been quite as applicable to much of Somalia's diaspora, and the aforementioned

⁴ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 177.

⁵ Gundel, Joakim. "The Migration-Development Nexus: Somalia Case Study." In *The Migration-Development Nexus*, eds. Nicholas Van Hear and Ninna Sorenson, 233-258. Geneva, Switzerland, 2003. The International Organization for Migration. 247.

technological change has only served to refute that notion even more. Somali society today serves as an exemplary example of British sociologist Anthony Giddens' notion that globalization extends and reinforces communities built on trust.⁶ Somalis have a traditional reliance on networking within their society, and this vital form of social networking has manifested itself on the global level. These transnational networks play a crucial role in migration flows originating from any country; family or friends working abroad can drastically ease the process of relocation for new migrants.⁷ This relationship has been demonstrated in both the context of Western host countries as well as in the context of Somalia's neighboring, refugee-harboring states such as Kenya.⁸ This dynamic is self-reinforcing, as it simultaneously improves the diaspora communities' resources while amplifying that particular migration flow from home to destination countries.⁹

While this notion may apply to virtually every diaspora community, the communal structure of Somali society simultaneously grows yet simplifies that transnational network. One must take into account the kinship groups, or ethnic linkages, that are the basic building blocks of Somali society. Studies on the sociology and genealogy that constitute Somali clanship and social affiliation could fill volumes, but what is most important are the clear loyalties and partiality that stem from these relationships.

With social obligations and clan tie-ins, Somali transnational networking seems to

⁶ Giddens, Anthony. *The Consequences of Modernity*. Stanford, CA: Stanford University Press, 1991. 112-114.

⁷ Farah, Nurudin. *Yesterday, Tomorrow: Voices from the Somali Diaspora*. London, UK: Cassel Publishers, 2000. 101.

⁸ Campbell, Elizabeth. "Formalizing the informal economy: Somali refugee and migrant trade networks in Nairobi." *Global Migration Perspectives*, no. 47 (2005): 12.

⁹ Lucas, Robert. *International Migration and Economic Development: Lessons from Low-Income Countries*. Cheltenham, UK: Edward Elgar Publishing Inc, 2005. 207.

bring an obvious "village" networking dynamic up to the global level. While these clan or community level international networks are beneficial to a great many people who fall under that umbrella, it should be remembered that this system is far from ideal and in the past 20 years largely necessary for survival. For example, most efforts towards an "ethnic unity" have generally failed, and modern Somali nationalists seem to have underestimated the divisive power of these different heritages.¹⁰ This was brought to light in the harshest sense following the fall of Barre in 1990 and the subsequent outbreak of ethnically-driven violence. However, there are clearly elements of a greater resilience and an inductive adaptability to these bonds, which is what the author aims to explore.

Another distinctive element in analysis of the Somali diaspora alluded to earlier is that the distinction between refugees and economic migrants as remitters is not as pronounced as it is with other diaspora communities. In fact, this distinction may be meaningless, as virtually all refugees, including those who fled to Europe or the United States as well as those who fled to neighboring countries such as Kenya have subsequently pursued employment and commercial endeavors with some degree of success.¹¹ In later chapters, the various mechanisms of the Somali diaspora's involvement in commercial affairs will be discussed in several settings and at varying dimensions of business. Some migrants may simply open an internet café or telephone calling center, while others have had great success with much larger

¹⁰ Lewis, Ioan. "Visible and Invisible Differences: The Somali Paradox." *Africa: Journal of the International African Institute*, no. 74 (2004): 491.

¹¹ Campbell, Elizabeth. "Formalizing the informal economy: Somali refugee and migrant trade networks in Nairobi." *Global Migration Perspectives*, no. 47 (2005): 14.

business endeavors such as regional airlines or organized telecommunications service providers. The distinction between economic migrant and refugee is further blurred when one considers the Somali peoples' traditional pastime of pastoral nomadism. Many Somalis' history is rooted in constant migration and the pursuit of an improved livelihood. Virtually all of Somalia's diaspora populations could be considered commercially-involved diasporas at some level, with the possible exception of certain refugee communities that have been marginalized to the point where efforts to get involved in local business or trading are completely impaired.

The bottom line is that investment, trade, and development efforts in Somalia rely heavily on remittances, and in some cases are driven exclusively by remittances and diaspora efforts. In addition to keeping family members fed, diaspora money is crucial for investment in businesses of varying scale, real estate investment¹² and community-oriented development projects.¹³ Diaspora remittances, as it was hinted to above, play an important role as an economic multiplier. They spawn businesses and developments in the service sector, such as telecommunications, market broker services, hotels, and even transport. Their benefits are apparent in the productive sector too as they generate new sources of income. In more hospitable situations, remittances have also been shown to help pay help fund broader goods, such as education and health.¹⁴

¹² Omer, Abdusalam, and Gina El Koury. "Regulation and Supervision in a Vacuum: The Story of the Somali Remittance Sector." In *Remittances: Development Impact and Future Prospects*, eds. Samuel Maimbo and Dilip Ratha, 226-243. Washington, DC, 2005. The World Bank. 230.

¹³ Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 14.

¹⁴ Johnson, Paula. "Diaspora Philanthropy: Influences, Initiatives, and Issues." *The Philanthropic Initiative & The Global Equity Initiative Joint Working Paper*, Harvard University Press, (2007). 7.

At the macro-economic level, remittances constitute far and away largest inflow of hard currency in Somalia, with Somali livestock trade and contributions from international aid providing auxiliary sources of hard currency. Maintaining that flow of hard currency is vital in maintaining any sort of economic stability. Remittances form a key pillar on which an informal economy has been able to survive and grow. The importance of the distinction between formal and informal in Somali affairs will be discussed in the subsequent subsection.

On the political dimension, the situation becomes murkier. Diaspora remittances have been shown to fund destabilizing political activities, and perhaps even more worrisome are the recent indications that a segment of the diaspora has become involved in direct tactical and logistical planning in the recent spate of open water piracy.¹⁵ However, there are still inherent benefits to remittances and remittance-driven efforts in business or development. The private sector can serve as a major contributor to peace and stability. Improved livelihoods, more employment, and the myriad of other opportunities associated with economic successes are generally considered landmarks on the road towards a more content and stable population. In the Somali case specifically, it has been demonstrated repeatedly that inter and intra-clan-based hostility, antagonism, and general aversion has been profoundly de-emphasized when faced with both the prospect of successful business,¹⁶ with a similar dynamic

¹⁵ "Somali piracy backed by international network." Associated Press 11 December 2008. Accessed on December 28, 2008, from <http://www.msnbc.msn.com/id/28158455/>.

¹⁶ Simons, Anna. *Networks of Dissolution: Somalia Undone*. Boulder, Colorado: Westview Press, 1995. 115.

being shown at a broader political level during internationally-backed peace conferences.¹⁷

A good example of this can be found in the breakaway territory of Somaliland, where the governance has not been afraid to lean on diaspora relations, has enjoyed relative success and stability. Diaspora interests, through funding or political prodding, have facilitated much of the development success and improve political stability in the fledgling government.¹⁸ The far-flung Somali expatriate communities have served as a vital pillar in both the economic and political role at the naissance of Somaliland, and have been equally important in maintaining social and governmental stability. The Somaliland diaspora has been encouraged to interface with the various transitional and interim governance systems that have come about since it declared its independence from Somalia in 1991. In doing so, Somaliland has been able to largely bypass the more volatile aspects of inter-clan relations found in Somalia.¹⁹ Despite the lack of international recognition and thus any influx of international aid, and an economy that was drastically inhibited by a livestock import ban in Saudi Arabia, the diaspora has been able to provide sufficient support to keep the fledgling territory afloat.²⁰ With heavy diaspora involvement and investment, the recent iterations of the Somaliland government has begun pursuing a number of interesting development

¹⁷ Zunzer, Wolfram. "Diaspora Communities and Civil Conflict Transformation." *Berghof Research Center Occasional Paper Series*, no. 26 (2004): 33.

¹⁸ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 7.

¹⁹ Gettleman, Jeffrey, "Somaliland is an overlooked African success story," *International Herald Tribune*, 7 March 2007. Accessed on 6 January, 2008 from <http://www.iht.com/articles/2007/03/07/news/somalia.php>.

²⁰ Lindley, Anna. *Migrant Remittances in the Context of Crisis in Somali Society: A Case Study of Hargeisa*. London, UK: Overseas Development Institute, Humanitarian Policy Group, 2006. 16

projects, from the provision of important civil infrastructure and social services to land mine removal and refugee repatriation endeavors.

The make-up of the Somali diaspora has changed substantially over time, but the practice of regular remittances has remained steady. The notable differences have been in the area of what the remittances have been used for and what they are put towards today. As mentioned before, early waves of economic migrants from Somalia to the Gulf tended to favor trading and small investment. Waves of migration sparked by conflict saw refugees remitting to support families, while former state elites began investing in larger endeavors from the outside their homeland. According to Joakim Gundel's piece in the United Nations' *The Migration Development Nexus*, around two-thirds of remittances to Somalia during the 70s and 80s were put towards trading and small business endeavors, while the other third was relegated to family assistance and support. In the 2000s, Gundel cites French political analyst and researcher Marc Antoine Perouse de Montclos' estimates that this figure has reversed, with the majority of remittances being relegated to day-to-day necessities for families. However, as will be argued in chapters five and six, it seems that diaspora business endeavors during the 1990s and 2000s have become anything but more pronounced.

This trend also leads to some substantial worries today among Somalis about the long-term prospects of sustained remittance patterns. Generally speaking, as diaspora populations mature in their host countries, familial relations tend to decline. Several works have indicated that, over time, diaspora involvement in home affairs has

decreased, most notably in times of relative stability. This raises a number of important questions; concerning whether or not the diaspora lifeline is a self-defeating form and whether or not the seemingly resolute and solid cultural and ethnic bonds between clans and families will eventually fray from distance despite technological innovation.

This informal system has allowed for some individuals to accumulate wealth far beyond what may have happened operating under the central bank of a state, but for the majority of the population it is those exact same open avenues of an informal economy that are vital to their very survival. Remittances from relatives abroad continually offset the disparate gap between the average Somali worker's miniscule salary and the cost of basic needs. This link has been a fixture of Somali society long prior to the fall of Barre and the subsequent collapse of the state, and despite questions about future generations, continues to serve a vital role today.

2.2 The Diaspora-Telecommunications Development Nexus

The linkages between the diaspora and telecommunications development are extremely interesting and represents a serious gap in the literature. Today, the practical relationship between a diaspora and telecommunications technology is evident in any call center, internet café, or cellular phone in both home and host country. This day-to-day relationship, near impossible two decades ago, has been

facilitated by technological advances directly augmenting pre-existing cultural ties. Outside of maintaining familial relations, telecommunications technology has also opened the doors for a myriad of other, more development oriented networks to develop, namely in business and trading. The evolution of telecommunications in Somalia over the past 15 years is a fascinating instance of development, and may potentially serve as a pre-cursor model for subsequent community-oriented modes of diaspora driven-development.

From a root theoretical standpoint, diaspora-driven development may follow a similar arc to that of telecommunications driven development. Parallels are clear in terms of the spread of the development and wide nature found in the distribution of benefits. For example, one can take into consideration the unique benefits of telecommunications development and see them mirrored or expounded upon in correlation with the development of diasporas or diaspora networks.

The proliferation of telecommunications technology and reasonable public access to it is often followed by declining average costs across the economy.²¹ Better information relay and decision-making processes inherently increases productivity and may also produce more supplies of capital. Increased development in the system also leads to a fall in costs of supplying services to prior subscribers. In contrast with other sectors in development, telecommunications is wholly adaptable to virtually any operational sector that it is supplying, ranging from the grass roots level up through large

²¹ Nathaniel Leff. "Externalities, Information Costs, and Social Benefit Cost-Analysis for Economic Development: An Example from Telecommunications." *Economic Development and Cultural Change*, no. 32 (1984): 257-258.

commercial and industrial operations. Telecommunications is not particularly specific to demand from a particular industry or individual. If a drastic market shift suddenly favors one product at the expense of another, the telecommunications sector is generally equally suited to facilitating the production of either. As stated by Castells, "Electronic communication systems give networks the capacity to decentralize and adapt to the execution of tasks while coordinating purpose and decision making. Therefore, flexibility can be achieved without sacrificing performance."²² Additionally, telecommunications infrastructure itself is inexpensive, quickly implemented, and, perhaps most importantly, does not require a substantial amount of pre-existing level of technology or facilities to be put into operation. This allows for technological "leap-frogging," or essentially bypassing earlier communications technologies such as hard-wired phone lines without having any prerequisite technology base in place.²³

It is in this vein that telecommunications development mirrors that of diaspora networking; namely that each new addition to the system essentially benefits every other node within the same network.²⁴ This dynamic of geometrically spreading benefits is not found in more traditional means of development. For example, a potable water pipeline routed into Village C from a well in Village A really only benefits village C. However, a cellular phone tower in Village C benefits Villages A,

²² Castells, Manuel. "Toward a Sociology of the Network Society." *Contemporary Sociology*, no. 29 (2000): 695.

²³ Sauter, Raphael, and Jim Watson. *Technology Leapfrogging: A Review of the Evidence*. Report for the DFID. Brighton-Sussex, UK: University of Sussex, 2008. 20.

²⁴ Roller, Lars Hendrick, and Leonard Weaverman. "Telecommunications Infrastructure and Economic Development: A Simultaneous Approach." *The American Economic Review*, no. 91 (2001).

B, and C because they are now interconnected. A parallel from this unique dynamic can be drawn to the proliferation and dispersion of a segmented diaspora. A diaspora with a presence in more places affords more opportunities in the economic and social senses in all directions, whether for future outward migrants or for finances or assets funneling into the home country. Diaspora networks facilitate their own brand of "leap-frogging," perhaps in the job sector, allowing new migrants to bypass most of the acclamatory phases that are normally requisite in new job markets, and also by creating or building on home-host business networking relations that may not otherwise have existed without a diaspora presence.

This parallel has been particularly evident in Somalia, despite the informal nature of the financial network. Over the past two decades, technological developments in telecommunications have catalyzed diaspora-driven development across the globe, and particularly in the case of Somalia.²⁵ It is from here that we can delve into the notion that technological change may reinforce or even catalyze these cultural or ethnic ties. The idea of ethnic responsibility or affinity, in conjunction with modern communications technology, forges a tool uniquely suited for analyzing many facets of development or rebuilding in Somalia. While much has been written about the virtues of telecommunications in development today, and the Somali diaspora has been frequently analyzed for its role in the country's internal affairs, no strong connections between the two have been established.

²⁵ "Somalia Calling: An Unlikely Success Story." The Economist, December 2005, 14.

In addition to facilitating participation in the modern international community, efficient telecommunications inspires internal economic growth through many mediums and with many distinct outputs.²⁶ While organizations such as the World Bank and the International Telecommunications Union have conducted studies showing that telecommunications can amplify development capabilities across many sectors, no study has directly captured the effects of this technological evolution on the informal, ethnic-and-culturally driven financial mechanisms such as the *Hawalaad*. As will be discussed in subsequent chapters, despite having existed for centuries before the advent of the internet or cellular telephones, the *Hawalaad* in its contemporary manifestations is clearly driven by the wave of telecommunications advancement that drove development across the globe.

However, the avenues opened through technology are only one component to this equation, and one should remember that is the aforementioned cultural ties that are the sole intrinsic element to this dynamic. While the core of a diaspora is often formed by conflict or overwhelming crisis, Somalis abroad representing various clans and sub-clans have shown that each segment of their population in the diaspora represents a unique value. Mirroring the theoretical benefits of telecommunications development, the diaspora relationship is a connecting to a communications system that inherently increases the value of the system to all other participants. As in a telecommunications network, these conceptual benefits will exponentially increase as more users are able to join the network. There is no question that telecommunications enhances the

²⁶ Hobday, Michael. *Telecommunications in Developing Countries: The Challenge from Brazil*. London, UK: Routledge, 1990.

effectiveness of the development process on the whole by increasing the output to cost ratio and helping to distribute information, and thus the benefits of development more evenly throughout the recipient base.

Turning back to the relationship between technological change and diaspora relations, it should be noted that the stateless nature of Somalia and the interconnected nature of the culture formed perhaps the strongest laboratory for development driven through telecommunications during the boom that began in the 1990s. Compared to other sectoral entities, telecommunications most closely exhibits the drawbacks of provision by state-owned entities.²⁷ As institutions, the inflexible bureaucracy and self-sustaining policies of a state-owned enterprise has traditionally been a major liability to telecommunications development, in that there is generally less incentive to keep up with the latest technologies or to expand the base of connected users.

The initial waves of telecommunications development in the post-Cold War period initially bypassed much of the developing world, notably Africa and the Middle East. As noted by Muhammad Ayish in 1992, a lack of financial resources, rigid economic legislation, and socio-political obstacles had seemingly inhibited the bridging of the telecommunications development gap.²⁸ However, Somalia was able to bridge this particular gap in spectacularly quick fashion. Within ten years of Ayish's observation, Somalia was in possession of the number one ranked cellular telephone network in all

²⁷ Wallsten, Scott. "An Econometric Analysis of Telecom Competition, Privatization, and Regulation in Africa and Latin America." *The Journal of Industrial Economics*, no. 49 (2001): 3.

²⁸ Ayish, Muhammad. "International Communications in the 1990s: Implications for the Third World." *Royal Institute of International Affairs*, no. 68 (1992): 487-510.

of Africa according to The Economist, ranking ahead of nations today considered to be telecommunications powerhouses such as Egypt, South Africa, and Tunisia.

In Somalia, this rapid technological evolution is certainly a response to the lack of an interfering state not only in terms of the freedom to implement a telecommunications network, but also the necessity of cultivating and maintaining the critical lifelines from Somalis abroad. Consumer-driven policies are imperative to ferment growth and thus income, and Somalia as the stateless entity owns its own distorted outputs in this equation. To state it succinctly, telecommunications is a rapidly evolving, technologically based sector, and Somalia itself is a rapidly evolving environment.

However, one of the main theoretical benefits of telecommunications development has been noticeably absent in the case of Somalia. As the flow of information increases, generally stability and growth follow with it, both socially and economically.

Elsewhere in the developing world, states are often bound to some measure or combination of socio-political instability, overbearing bureaucracy, or inadequate economic policies. All of these factors lead to situations in which a substantial amount of uncertainty surrounds many economic decisions. As was originally argued by David Apter in *The Politics of Modernization* in 1965, the simplest theoretical antidote for uncertainty is additional information. Given the political and economic obstacles that have faced the countries in the developing world over the past decades, skepticism concerning the feasibility of stability is warranted. However, as shown in the Somali case, it seems a state or governing body is not necessarily a requisite, and

that a population dedicated to flexibility and encouraging competition in the telecommunications sector can certainly reap the social and economic benefits attached to such development.

2.3 The Formal/Informal Dynamic in Somalia

Nowhere is the challenge of making the distinction between formal and informal as pronounced as it is in the case of Somalia. The borders between many social phenomena are blurred, distorted, or intertwined within almost every aspect of Somalia's existence. This includes any distinctions between formal and informal, war and peace, government and non-government. The distinction between "formal" and "informal" is most easily reduced to a simple question of legality, however the absence of a central government makes such questions meaningless. Considerable academic debate has taken place in the past concerning whether or not a state role in economy, specifically in financial institutions, is a requisite for a functional economy.²⁹ The case of Somalia puts this notion to the test more so than any other "state" or "stateless" area on the planet, and it is necessary to discuss these boundaries as preface to any discussion about how the economic situation in Somalia has unfolded and how it functions today.

²⁹ Simmel, Georg. *The Philosophy of Money*. London, UK: Routledge, 2004. 180.

Over the past decades, Somalia's economic boundaries have been extremely hazy. Determining what constitutes formal or informal economic activity has always been troublesome, even during the period of a central government. If the definition of formal requires a state-based relationship, then the virtually the entire domestic economy of Somalia is completely informal, along with many parts of its external economy. Today, the Somali economy is not formally measured or even acknowledged by global organizations such as the International Monetary Fund or the World Bank. However, the country is recognized as a major exporter of livestock and fruit, and regularly receives foreign investment from very legitimate firms such as a General Motors subsidiary or Dole Fruit, and engages in "formal" livestock trade with a number of its neighbors and other countries.

Numerous authors have struggled to define the situation in Somalia, and most revert to ambiguous "half-status" definitions. Bernard Helander argued in his 1997 article "Is there a civil society in Somalia?" that Somalia's state could be most accurately described as being in a state of "not war, not peace." According to Peter Little, the Somali economy can be roughly classified as "not official/not unofficial," a claim that he says has become increasingly applicable to other countries, particularly those in Africa, are seeing the informal economy driving most financial activity. Somalia current situation may be most accurately described as an extreme case along the formal to informal range of economies.³⁰ This notion of a "formal to informal continuum" has been more emphatically described as "legal to illegal" in certain other

³⁰ Little, Peter. *African Issues: Somalia: Economy Without a State*. Bloomington, Indiana: The International Africa Institute, 2003. 8-9.

venues, notably at the policy level. Somalia should represent an entry along this evolution, certainly further along than any other story comparable in terms of state weakness or failure. However, it should not be viewed as an individual case without this context, lest any potentially valuable insight from its study is attributed to the exceptional situation. As Little poignantly states, Somalia represents a "question of degree, not difference" when compared to other weak or failing states contending with sub-regional conflict.

After almost 20 years, it seems certain that the applicability of these ambiguous "half-statuses" has shown that they are not rooted in a transitory phase. Rather, they are probably the best that that one can put together when attempting to understand the situation in Somalia, particularly in terms of its economy and any subsequent discussions of development.

2.4 The *Hawalaad*: Somalia's Informal Transfer System as a Theoretical Lynchpin?

The disparate circles of theory presented previously mirror the inherent complexity of the different segments of Somali life. Fortunately, a single component common to each is present, and in itself provides a vital cog in the analysis of the case- the *Hawalaad* informal transfer system. While the next chapter will discuss the *Hawalaad* at length, with a particular focus on its appeal, functionality, and business

model, this segment aims to establish its place conceptually. The *Hawalaad* is the primary conduit for money between diaspora and home, and makes almost exclusive use of modern telecommunications technology. With intermittent and inconsistent international intervention, the bulk of Somali society had few alternatives other than rely on and in doing so contribute to the growing informal economy. This economy grew in a number of dimensions outside of financial transfers, branching out to include informal cross-border trading and smuggling. However, it is the *Hawalaad* system that has served as the glue keeping many facets of Somali society at home and abroad together, and facilitating a degree of financial wellbeing comparable to its neighbors. While the day-to-day operations and practical dimensions of the *Hawalaad* will be discussed in the subsequent chapter, I will take the opportunity here to outline its niche at the corner of the aforementioned theories.

To establish a place theoretically for the *Hawalaad*, it is important to compare it to other, more formal remittance transfer systems. Other informal transfer systems exist across the globe, such as the *hundi*, *fei chien*, *phoe kuan*, and other related services, including simple courier businesses.³¹ However, the Somali *Hawalaad* transcends all of these in terms of scope and efficiency of service as well as the degree to which it is culturally attune. In addition to charging higher fees, these systems require substantially larger amounts of time, information, and access. Each one of these factors is a major determinant for would-be users, and often represents the breaking point in transaction cost for these would-be users. In recent years, IMF reports have

³¹ El Qorchi, Mohammed, Samuel M. Maimbo, and John F. Wilson. "Informal Funds Transfer Systems: An Analysis of the Informal Hawala System ." *The International Monetary Fund and The World Bank*. (2003): 18-20.

warned that remittance transaction costs are high, and that while economic adversity may affect this revenue stream less quickly, transaction costs will eventually prove to be a deterrent to sending money home.

The Somali *Hawalaad* model is unique in that it bypasses several financial transaction costs as well as almost every potential social cost, such as the substantial amounts of time spent filling in gratuitous paperwork or answering potentially uncomfortable questions at an international bank branches. The charge to send money via the *Hawalaad* system is around four or five percent over the whole amount to be transferred, a charge substantially lower than Western Union, perhaps the closest thing to a "formal" competitor to the *Hawalaad*. Perhaps the most succinct way to express the effectiveness of this system is to note that Western Union is not represented in Mogadishu. The *Hawalaad* is comprised of individuals, networks, and organizations that employ a variety of informal methods of transferring both money and value. It is this gray area that causes regulators the most concern because, for the most part, there appears to be a direct correlation between the degree of funds and goods commingling and the likelihood of criminal intent to conceal or deceive.

The *Hawalaad* utilizes a widespread network of people not necessarily affiliated under the banner of business, but rather culture or ethnicity. The transactions themselves can be accomplished by a couple of individuals on an irregular or regular basis. The *Hawalaad* is not a rigid business conglomerate. It is more similar in business model to the franchisee-restaurant system of independently owned firms that are loosely

connected by the same store name and logo. However, formal incorporated or franchised companies operate under similar auspices albeit by more rigidly conforming to national or international standards of business practice. *Hawalaad* services today frequently allude to the same services found at formal financial institutions, but leave no trail for anyone wishing to monitor or reconstruct the transaction route.³²

Each of the theoretical angles of analysis mentioned in this chapter are of utmost value when analyzing the *Hawalaad* system. As the principal channel of diaspora funds back into Somalia, its importance in this study is unquestionable. The subsequent chapter will continue to develop these concepts while outlining the practical intricacies of the *Hawalaad* system. From that point, the *Hawalaad* role in facilitating diaspora-driven development will be explored.

³² Maimbo, Samuel, and Nikos Passas. "The Regulation and Supervision of Informal Transfer Systems." In *Remittances: Development Impact and Future Prospects*, eds. Samuel Maimbo and Dilip Ratha, 211-226. Washington, DC, 2005. The World Bank. 214.

CHAPTER 3: THE *HAWALAAD* SYSTEM

The *Hawalaad* system serves as the primary conduit for diaspora remittances into Somalia, and is important to discuss in terms of each theoretical angle addressed in the previous chapter. It embodies the murky political and economic boundaries in Somalia, and is both a creation of and instrument to the informal economic opportunities that have evolved in the country. While the *Hawalaad* system today provides the primary financial link between the diaspora and families in the home country through mediums of telecommunications technology, the system itself has a far deeper history, both globally and specific to Somali culture.

This chapter will focus directly on the history, defining characteristics, and practical usage of the *Hawalaad* system within Somali society today. While the *Hawalaad* has a long history stretching back for centuries, emphasis will be placed on the more contemporary periods of migration out of Somalia and the modern developments in terms of technological change.

3.1 Definition of the Term

The *Hawalaad* system has been in existence for centuries, with some early Arabic texts dating it as early as the 8th century CE. The etymology of the term "*Hawalaad*"

originates with the classical Arabic word meaning to "change or transform." It was subsequently assimilated into both Urdu and Hindi, where the term is recognized as describing "trust" and "reference." Ironically, it is the Urdu and Hindi definition of the term that comes closest to encompassing the *Hawalaad* system utilized in Somalia today. It is an informal system of basic financial services that includes a worldwide network based solely on trust and cultural ties. The "*Hawala*" is an individual shop, and the "*Hawaladar*" is the person in charge of that business. Additionally, there are a number of other, more peripheral actors involved in Somali business and thus involved in *Hawalaad* transactions. They will be discussed in subsequent chapters.

3.2 Informal Precursors and the Evolution of the *Hawalaad*

Some have argued that the roots of the contemporary *Hawalaad* system can be traced back to the 1960s, when many Somali migrant-workers found their way to southern Africa to work on the construction of the Tanzania-Zambia railway.¹ However it was across the two decades following that the value, tangible and intangible, of the informal financial transfer system became most clearly evident. A large wave of Somali migrants made their way to the Arab Gulf States as employment opportunities were made available in the booming oil economy. This, in conjunction with harsher political repression at home, elevated the necessity for the diaspora-remittance lifeline, and the utility of such a

¹ Omer, Abdusalam. A Report on Supporting Systems and Procedures for the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala). Nairobi, Kenya: United Nations Development Programme in Somalia, 2002. 5.

system grew throughout the 1970s and 1980s.² However, the precursors to today's Somali informal transfer system were much simpler and were unable to rely on time and space compression offered by modern communications technologies.

This first-wave of migrants to the Arab Gulf states during the oil boom era initially made use of a remittance system known as the *franco-valuta* system. In this system, migrant workers in the Gulf would purchase a quantity of high-value and high-demand goods, often electronic or household in nature, at duty-free prices in their host countries. These goods would be shipped back to Somalia and sold for profit, with most of the profits going to relatives via the traders. In some circumstances, a share of the money would go back to the original migrant worker himself. Many others simply remitted money or goods directly to relatives, often through the same traders.³ This system was pioneered by members of the Isaaq clan.⁴ This system was almost wholly reliant on clan lineages and a high degree of trust in the fellow clan members responsible for selling the imported goods. This served as a strengthening mechanism for ethnic ties. The *franco-valuta* system was also invaluable in serving both the needs of oft-marginalized families at home while simultaneously stimulating the consumer goods market and providing a much needed source of foreign exchange.⁵ According to some reports, the *franco-valuta* system was responsible for between US\$300 and US\$350 million dollars in remitted

² Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 4,5.

³ Simons, Anna. *Networks of Dissolution: Somalia Undone*. Boulder, Colorado: Westview Press, 1995. 126.

⁴ Gundel, Joakim. "The Migration-Development Nexus: Somalia Case Study." In *The Migration-Development Nexus*, eds. Nicholas Van Hear and Ninna Sorenson, 233-258. Geneva, Switzerland, 2003. The International Organization for Migration. 246.

⁵ Jamal, Vali. "Somalia: Understanding an Unconventional Economy." *Development and Change*, no. 19 (1988): 203.

resources each year towards the end of the 1970s and throughout the first half of the 1980s, with an upward trend. The gross remittance total for 1987 was estimated to be between US\$480 and US\$540 million dollars.⁶ That estimated figure would represent almost 40 percent of Somalia's Gross National Product each year during that same period and equal to thirteen times the Somali-based national wage bill.⁷

Somalis abroad throughout the Gulf, Middle East, North Africa, and Western Europe found this avenue of remittances favorable both financially and politically; no paper trail on either end allowed relatives at home to receive money relatively anonymously and thus avoid drawing substantial attention to a remitting individual's family. Additionally, migrants generally ended up residing close to fellow migrants who were members of the same clans, or at least members of peripheral clans that enjoyed good relations with other migrants' clans. This contributed to a further reinforcement of the "clan identity" as the dominant social coagulant.

This period was also marked by increased attempts at market interference by the state-controlled Somali Commercial Bank (SCB), the only formal financial institution in the country throughout the 1980s. The Somali Commercial Bank began imposing strict tariffs and duties on both formal and informal imports and exports, and tightening border controls became a major concern for workers abroad utilizing the *franco-valuta* system.

The government, in what ultimately could be described as over-assertion of itself as the

⁶ Green, Reginald H., and Vali Jamal. *Somalia: Paradoxes of Private Prosperity, Poverty, Pockets, Volatile Vulnerability and Public Pauperisation*. Mogadishu, Somalia: United Nations Children's Fund (UNICEF), 1987.

⁷ Marchal, Roland. *Final Report on the Post Civil War Somali Business Class*. Paris, France: European Commission, Somali Unit, 1996. 35.

financial authority in the state, created an environment where traders and merchants were essentially punished for engaging in formal financial activities. Even when so-called legitimate economic activities were able to function, they did so at a much higher transaction cost as compared to the informal economic sector.

In addition, the SCB exhibited all of the symptoms of a state-controlled institution in a sector that was growing increasingly reliant on new technologies. SCB's formal banking offices were sparse in number and disproportionately distributed in the major urban centers. Telecommunications was inefficient and irregular; and hard postal services lagged even further behind the newer venues for commerce. The bureaucracy continued to grow as the government sought out prospective tariff-payers in the informal finance sector, contributing to even more disincentive to utilize the formal channels of finance. Bureaucratic approval, always from Mogadishu, was needed for any sort of transaction, ranging from large-scale trading to small currency exchanges, leaving the population to make use of the alternatives if they wanted to get anything accomplished in a timely manner.

The franco-valuta system was officially banned in 1982 ostensibly because it increased the misuse of much needed foreign exchange, but more likely because it potentially undermined the power of the regime's own patron-client mechanisms.⁸ Yet, the ban had little effect as it only led to a new system. Thus, the *Hawalaad* system evolved and gained prominence in order to fill the vacuum as the next iteration of Somalia's informal

⁸ Marchal, Roland. *Final Report on the Post Civil War Somali Business Class*. Paris, France: European Commission, Somali Unit, 1996. 26.

transfer system. While it did not involve a goods trader, it still provided a crucial source of hard currency exchange. The significance of these remittances grew as part of the emerging parallel economy in the 1980s, when they were estimated to be worth US\$370 million annually, of which 75 percent came from workers in the Gulf countries.⁹

This dynamic of increasing reliance on informal economic avenues and a de-emphasis on the role of the state in such matters clearly foreshadowed the collapse of the state a few years later. With Somalia's formal economic institutions sputtering, faltering, and failing towards the end of the 1980s, the subsequent collapse of the system with the government actually meant very little to the bulk of Somalia's population in terms of financial services.¹⁰ The collapse of the state and the subsequent outbreak of violence was the biggest catalyst for the growth of the Somali diaspora in the West. It is these more recent Somalia diaspora groups residing in Dubai and Western states that are playing the role of the largest source of remittances to family members in Somalia or in refugee camps in neighboring countries. This period of migration to Western countries following the outbreak of violence is almost directly correlated to the period of rapid technological change that began in the early to mid-1990s. The war and subsequent dissolution of the state served to sharply catalyze the rise of the informal economic system. Increased migration led to increased demand for remittance avenues, and enterprising businessmen were able to take advantage of this market deficiency.¹¹

⁹ Bradbury, Mark, Kenneth Menkhaus, and Roland Marchal. *Human Development Report Somalia 2001*. Nairobi, Kenya: United Nations Development Program, 2001.

¹⁰ Simons, Anna. *Networks of Dissolution: Somalia Undone*. Boulder, Colorado: Westview Press, 1995. 134.

¹¹ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 147.

3.3 Technological Change and the *Hawalaad*

During the pre-telecommunications age, the *Hawalaad* system utilized camels and pack animals to exchange messages and distribute funds. The system began using postal services as they became available in the late 1800s, and has experienced considerable growth with the advent of modern telecommunications, including email, text messaging, and voice-over internet technologies. Somalis are also increasingly making use of internet forums and message boards not only as mediums of low-level communication, but for exchange of ideas in terms of business and trading endeavors.

While the history of the Somali *Hawalaad* system spreads back for centuries, it is only in the past 20 years or so that it has risen to its current prominence in daily life. This rise is directly correlated with the spread of globalization and the increased rate of technological change, particularly in the field of telecommunications. While the existence of substantially-sized communities of Somali migrants in Britain during the colonial period may have been the first to make use of the *Hawalaad* system in conjunction with telecommunications technologies,¹² it was in the African continent that the prefigures of the *Hawalaad's* current manifestation began to appear. The *Hawalaad* system evolved during the 1980s and into the 1990s, when other modes of transfer were being shut down and where money was frequently transferred to the armed guerillas who eventually overthrew the Siad Barre regime. Thus, to increase the efficiency of the *Hawalaad*, the Dahab Shiil Company then based in the Ethiopian town of Dire Dawa found that mobile

¹² Harris, Hermoine. *The Somali community in the UK: What we know and how we know it*. London, UK: Information Centre About Asylum and Refugees in the UK, 2004. 22.

radio systems used by the opposition movements combined with satellite telecommunications facilities were very useful.¹³ The seeds planted during the onset of conflict actually later funneled in technology and lead to the spread of efficient telecommunications companies in post-collapse Somalia. The utility of these technologies quickly manifested itself in all manner of informal economic practice.¹⁴ Innovation and entrepreneurial savvy was rewarded in its own way, as was demonstrated by the Dahab Shiil *Hawalaad* company's ascension to the top of its sector in Somaliland.

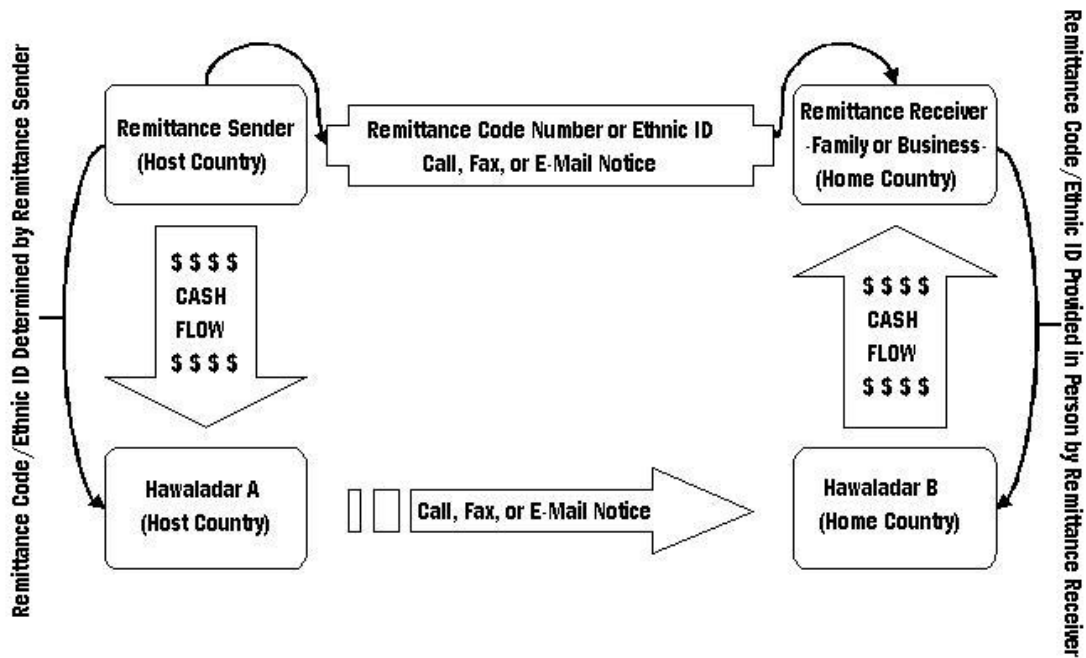
Today, the practical use of sending home a sum of remittance money operates much like a wire transfer at a formal banking institution; the client brings the money to his or her local *Hawala* establishment and provides information about the intended recipient as well as a specific pick-up location. The client pays a small fee, and the *Hawaladar* transfers this information via email, telephone, or fax to the receiving *Hawala* operator. The targeted recipient may then arrive at the specified *Hawala* and provide whatever identifying information had been specified by the sender. This information can be as simple as a given name, but can include anything from five-digit passwords to complex information about one's lineage and, in the case of Somalis, ethnic or clan affiliations. Somalis both abroad and at home make use of the extreme compression of time and space offered by telecommunications technologies. As shown in Figure 1, the *Hawalaad*

¹³ Gundel, Joakim. "The Migration-Development Nexus: Somalia Case Study." In *The Migration-Development Nexus*, eds. Nicholas Van Hear and Ninna Sorenson, 233-258. Geneva, Switzerland, 2003. The International Organization for Migration. 246.

¹⁴ Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 3.

system today is wholly reliant on telecommunications lines between both the remitter and the remittance receiver, as well as their corresponding *Hawaladars*:

FIGURE 2. Typical Somali *Hawalaad* Transaction Model



While this type of model, originated by El-Qorchi, Maimbo, and Wilson in 2002, is largely simplified, it still provides a workable overview of how the system works.¹⁵ Most *Hawalaad* transactions, particularly those directed to more rural regions in Somalia, might make use of several more *Hawaladars* in series before the remittance receiver is able to pick up the money.¹⁶

¹⁵ El Qorchi, Mohammed, Samuel M. Maimbo, and John F. Wilson. "Informal Funds Transfer Systems: An Analysis of the Informal Hawala System ." *The International Monetary Fund and The World Bank*. (2003): 1-71.

¹⁶ Ballard, Roger. "Hawala Transformed: Remittance-driven Transnational Networks in the post-Imperial economic order." *University of Manchester Centre for Applied South Asian Studies*, Conference paper. (2004): 9.

3.4 Attributes and Advantages of the *Hawalaad*

The *Hawalaad* network itself is extremely fluid and relatively devoid of any deep-rooted institutions. All but the largest *Hawalaad* companies refrain from establishing a central office or headquarters, and usually settle past debts and balances from past transactions in relatively informal settings such as homes or even, in smaller instances, at public cafes or gathering places. There are, however, a number of qualifiers and attributes specific to the *Hawalaad* system.

Most *Hawalas* operate between specific areas of the world, or through specific country-to-country channels, similar to airlines. For example, an individual in Montreal, Canada wanting to send money to Jirriban, Somalia may end up using the services of one *Hawaladar* to send the money from Canada to say Mogadishu, Somalia, but another *Hawaladar* to move the money from Mogadishu to Jirriban.¹⁷ However, like the economic context they operate within, the nature of association between various *Hawaladars* is not "formal" by any Western understanding of the word. Despite the lack of any sort of legal agreements or binding contracts, *Hawaladars* are culturally compelled to uphold honesty and maintain standard operating norms. *Hawaladars* are generally networked into the system through a family tie, then expand out and build relations initially with other operators known in their familial network. As time goes on, more established *Hawaladars* may seek to increase business by expanding the networks,

¹⁷ Shay, Shaul. *Somalia: Between Jihad and Restoration*. Piscataway, New Jersey: Transaction Publishers, 2008. 73.

sending general inquiry emails or making phone calls to *Hawaladars* that they have heard of, dealt with indirectly, or are recommended to them by other operators.

In addition, *Hawaladars* rarely maintain any sort of customer or transaction records, particularly once one is dealing with a *Hawala* in-country. This practice of anonymous transactions has evolved considerably for *Hawaladars* operating in the West, particularly after the events of September 11 sparked the US-government's shutdown of Al Barakat, one of Somalia's most prevalent remittance firms. Today, if records are maintained, they are often handwritten, on pieces of scrap paper in what has been described as "idiosyncratic shorthand"¹⁸ and are usually disposed of immediately after the transaction is complete. It has been suggested that some *Hawaladars* might maintain their own records for certain remittance-receiving customers, either on their own accord or perhaps at the request of a separate client, but this is a practice that is never advertised and rarely admitted to.¹⁹

There are a number of key reasons that the *Hawalaad* system has evolved to become the base of financial activity in Somalia. In a paper on informal financial transfer services in 2003, the IMF identified five characteristics specific to an informal financial transfer system. These included; speed, cost, cultural convenience, versatility, and anonymity.²⁰

¹⁸ Shay, Saul. *Somalia: Between Jihad and Restoration*. Piscataway, New Jersey: Transaction Publishers, 2008. 54.

¹⁹ United States Congress. Senate. Committee on Banking, Housing, and Urban Affairs. Subcommittee on International Trade and Finance. (2001). *Hawala and Underground Terrorist Financing Mechanisms: Hearing before the Subcommittee on International Trade and Finance*. 107th Congress, 1st sess., 14 November 2001. Washington, DC.: Government Printing Office, 2002. 24.

²⁰ El Qorchi, Mohammed, Samuel M. Maimbo, and John F. Wilson. "Informal Funds Transfer Systems: An Analysis of the Informal Hawala System ." *The International Monetary Fund and The World Bank*. (2003): 15-17.

While these five categories frequently overlap, Speed and Cost could roughly be lumped into economic cost benefits, and Cultural Convenience, Versatility, and Anonymity could be described as transaction-cost oriented benefits. The following section will analyze those stated benefits within the context of Somalia and Somali diaspora relations through the *Hawalaad* alone.

3.4.1 Speed and Compression of Time and Space: According to Somalis that regularly make use of the *Hawalaad* system, a financial transfer utilizing one well-established information route can take less than an hour to be received by the recipient. With the high speed of telecommunications technology available on both ends of the transaction, the most common delays relate to constants such as differing schedules owed to different time zones. Even then, however, there are generally *Hawaladar* institutions that are open 24 hours or extended (18) hours each day in most major Somali population hubs, notably Mogadishu, Hargeysa, and Dubai.²¹ However, many adhere to whatever the normal business hours in the host country of operation tends to be. However, most urgent transactions can generally be made "express" for an extra fee. "Express" or similarly named service upgrades might entail a *Hawaladar* receiving a call or email while he is at home or "out of the office," then subsequently phoning or SMSing the corresponding recipient *Hawaladar* at home, incurring international calling expenses.²² The original remitter is responsible for these charges and any service charges incurred by either or both of the *Hawaladars*.

²¹ El Qorchi, Mohammed, Samuel M. Maimbo, and John F. Wilson. "Informal Funds Transfer Systems: An Analysis of the Informal Hawala System ." *The International Monetary Fund and The World Bank*. (2003): 12.

²² Paradkar, Shalaka. "Hope is Forever: Somalis in Dubai." *Gulf News Art & Culture Section's Friday Magazine*. 18 May 2006. <http://archive.gulfnews.com/articles/06/05/18/10040858.html>.

As communications technology has gotten more reliable and more prevalent, the time needed to conduct a *Hawalaad*-based transfer has dropped substantially. Earlier in the system's evolution, transactions between Western countries and Somalia would take an average of 24-48 hours or even more, owing to regular connection failures and depending on geographic impediments that might need to be overcome. Remittances utilizing multiple *Hawaladars* or remittances traveling along previously unused transaction routes may take longer, up to two or three days in most cases. This is also the case when remittances are sent to Somalia's rural areas, particularly border regions.

Payments today are generally sent via e-mail, although depending on distance, cost, and familiarity, *Hawaladars* may use faxes, SMS messaging, or regular phone calls to communicate with each other. This represents a stark contrast when compared to the earliest manifestations of the Somali Hawalaad system, which relied on hand-written notes, word of mouth, and a much higher level of implicit trust in each component of a longer chain of communication.

3.4.2 Monetary Cost Advantages: The IMF argued that the cost benefit for remitters utilizing informal transfer systems was primarily rooted in the financial differences; notably that informal systems are inherently less expensive than transactions involving banks and other formal institutions. However, in the Somali case this is a moot point for two reasons. First, there is simply not a realistic alternative to the *Hawalaad* when it comes to getting money into Somalia. Second, the cost itself is largely dictated by a

market that itself is rooted in notions of cultural loyalty, and is more affordable than any comparable formal system, even though those are not even actually available.

Traditional rates for an international transfer of funds through a formal transfer service such as Western Union are much higher than comparable *Hawalaad* rates. Remittance senders in Europe and North America can expect to pay a five to nine percent fee for transfers over US\$500 dollars to African or Middle Eastern countries. For example, a US\$1000 dollar transfer originating in North America and destined for a Horn of Africa country, such as Djibouti, would incur a minimum US\$65 dollar service charge, while sending US\$1000 to Sudan from the United States via Western Union's telephone service would cost US\$85 dollars.²³

In contrast, the IMF states that the cost of an informal transfer between two major international centers averages between two and five percent of the total amount sent. The "official" line from *Hawaladars* operating into and out of Somalia is that the charge is a blanket rate of five percent. However, discounts can be negotiated through a myriad of avenues including discounts for extenuating familial circumstances, reduced fees for abnormally large transfers, reduced tariffs on the basis of frequent business, and so on. If the relationship between the remitter and *Hawaladars* utilized in the transfer is well established, costs may go down and transaction time will also drop. The ultimate price is determined by the size of the transaction, the ultimate destination of the funds, the distances crossed and mutual familiarity of the *Hawalaad* networks employed, and

²³ All figures and quotes taken from Western Union's Online Price Shopper Utility: <https://wumt.westernunion.com/WUCOMWEB/priceShopperRedirectAction.do?method=load>

relationship between the remitter and the *Hawaladar*. Bargaining and discounts are commonplace, and rarely does a regular Somali remitter walk into a *Hawaladar* storefront without any means of negotiating at the very least a nominal discount.

The *Hawaladars* are able to keep their costs low for a number of reasons. The system itself relies on very little infrastructure or overhead. The infrastructure required by a *Hawaladar* is nil when compared to a formal banking institution. *Hawaladars* can operate from home, from a friend's home, from a small shop, or even a nook or cranny in an already existing shop or store. Many *Hawaladars* operate almost on a contract basis with pre-existing exchange bureaus, smalltime brokers, telephone or computer centrals, or travel agencies. A *Hawaladar* can make due with a simple telephone, although most today operate with desktop or laptop computers. For a period in the mid-to-late 1990s, fax machines were extremely prevalent method of transferring information, but today it is clear that computers have taken over. Emails, instant messaging, and voice-over internet phone usage are the most common methods of communication between *Hawaladars*.

The system relies on very little infrastructure or overhead, and it is able to bypass any regulation or taxation for at least half, if not all, of the money's journey. Virtually no record-keeping or administrative work is required, as little attention is paid to formal accounting procedures, regulation laws, or taxation practices.²⁴ Major remitting nations such as the USA have over the years implemented laws and regulations requiring *Hawaladars* to adhere to certain common business practices, including knowing your

²⁴ Simons, Anna. *Networks of Dissolution: Somalia Undone*. Boulder, Colorado: Westview Press, 1995. 134.

clients and keeping documentation and transaction archives. Taxes have factored into this regulation as well. However, remittances are virtually completely free of interference, regulation, or taxation once that *Hawaladar's* text message, fax, or phone call reaches Somalia.

The minimal operating costs of *Hawalaad* shops also correlates to their high prevalence in Somali migrant hubs, compared not only to the formal financial sector but even when compared to other small scale business endeavors common to migrants in host countries, such as small grocer shops, textile shops, or carpet stores. This in turn foments an extremely effective system of competition and price equalizing. Because of these factors, it can be concretely demonstrated that remitting through the *Hawalaad* network is less expensive, in financial terms alone, than using the formal banking sector for money transfers.

3.4.3 The Notion of Cultural Convenience: Unlike the prior segment on the purely economical advantages of the *Hawalaad* system, benefits such as cultural convenience are purely based on more qualitatively-oriented transaction costs beyond the financial dimension. For diaspora communities, the *Hawaladar* is a vital part of the Somali culture abroad. A trip to the *Hawaladar* simultaneously offers a mechanism to uphold cultural norms, i.e. supporting a less well-off relative in the homeland, while simultaneously speaking the native language and bantering with another individual who is culturally in tune with the customer. This is a naturally-reinforcing mechanism that usually only

solidifies the remitter-*hawaladar* relationship starting from the first meeting or first transaction.

In areas where the less well-off Somali diaspora populations exist, such as the Somali refugee communities in Nairobi, a *Hawaladar* transaction is appealing due to illiteracy or limited education levels in conjunction with the aforementioned degree of cultural trust. While illiteracy among Somalis in Western nations is not as significant, the idea of bypassing endless paperwork, formal bank bureaucracy, and avoiding a direct information trail certainly constitute some of the main appeals to Somali businessmen abroad looking to remit funds.

Hawaladars know the societal norms, a particularly important component in remitting to more conservative areas of Somalia. From a gender standpoint, women are still required to have minimal exposure to the world beyond their home and village, and clearly cannot establish relationships with outside institutions, financial or otherwise. The *Hawaladar*, as a part of the community, is seen as a bridge to this potentially crippling gap in most situations. It is these cultural dynamics of the informal system that make it continually self-reinforcing.

3.4.4 Versatility and Utility: While each of the aforementioned components of the Somali *Hawalaad* system could be described as "versatile," the term in this case is meant to describe the "bigger picture" benefits of the *Hawalaad*, notably in the years immediately following the fall of Barre and in giving rise to the informal economy. Informal

transactions have been described as highly adaptable to conditions of wars, civil unrest, conflicts, economic crisis, weak or nonexistent banking systems, as well as economic sanctions and blockades in recent publications by the IMF. This represents a virtual laundry list of some of the most serious problems facing Somalia today.

This has been evidenced in cases outside of Somalia, including Afghanistan and to a lesser extent, Iraq. Similar conditions exist in each venue in which an informal economy appears; a nonexistent or nonfunctional financial system, years of conflict, destabilized or nonexistent politics or governance, and a diaspora willing to remit much-needed money. Additionally, the amount of resources necessary to ensure security on-site, much less in the vicinity, of a formal financial institution would drive costs even further out of reason.

Banks, as an institution, are traditionally poorly suited to remittance transferring and distribution. A model involving transfers between major urban centers is certainly feasible, and has been executed rather successfully by Western Union in certain regions, notably Central America. While remittances traditionally originate from bank-friendly environments like large urban centers with concentrated populations, the destinations are rarely as easily discerned or convenient. Banks cannot profitably open branches in sparsely populated regions, nor can they move to and with their customers. Formal financial institutions today operate at a level far above the remote village and cannot afford to pay attention to sub-regional disputes and conflicts. An informal system such as the *Hawalaad* becomes requisite when the security situation in conjunction with the wide dispersion of remittance recipients is taken into consideration.

The *Hawalaad* can adapt to each remitter and each recipient on a personal basis, and handle foreign exchange in-house. This versatility allows *Hawaladars* to adapt to the needs of their customers, including minimizing regulation, taxation, and any sort of identifying paper trail, as discussed in the Anonymity segment of this chapter.

Additionally, due to the rapid transmission of remittances, the *Hawalaad* is far more suited to coping with weak or unstable local currencies than a formal banking institution and its accompanying bureaucracy and analytical business sectors.

3.4.5 Anonymity and Confidentiality: Coincidentally, the anonymity factor involved with *Hawalaad* transactions alternately encourages remitting and scrutiny from the governments hosting migrants. This is particularly true in a post September 11 era, in which all substantial financial transactions occurring "below the radar" of the formal financial sectors are immediately suspect.

Hawaladars rarely if ever keep any formal records of their customers or their transaction histories, and if they do have information it is completely unavailable to regulatory bodies or third parties in general. There are no documents required to do business with a *Hawaladar*, and there is no need to "open an account" or in any way establish an identity. For a long period of time, this was true in every country and region that *Hawaladars* operated in. However, after the shut down of Al Barakat following allegations that it was anonymously funneling money towards extremist groups, many *Hawaladars* in the US

and some in Europe have adopted some basic record-keeping and identity-verifying procedures.

Recipient information, however, is still virtually nonexistent. The one piece of transmitted information is the "code," from the sender to the recipient. However, this code is often predetermined, based on clan lineage and knowledge which does not change, therefore precluding the necessity of the transfer of even that single bit of information. Usually, the only evidence of the transaction is the settlement documentation between *Hawaladars* only. This rarely includes details outside of total amounts of money owed, and possibly dates and times of the transactions. Customer information is not maintained, and attempts to conduct primary research on what little of this data exists have proven notoriously difficult.²⁵

3.5 Who Remits? General Statistics

Assembling comprehensive statistics on *Hawalaad* clientele and ascertaining remittance trends is a complex, if not impossible endeavor. However, despite the lack of record-keeping or administrative capacity, the Dahabshiil remittance firm has conducted some basic surveys about remitter demographics. In 2004, the company revealed that an internal survey indicated that remittance sending divided by gender was almost exactly

²⁵ Ballard, Roger. "Hawala Transformed: Remittance-driven Transnational Networks in the post-Imperial economic order." *University of Manchester Centre for Applied South Asian Studies*, Conference paper. (2004): 4.

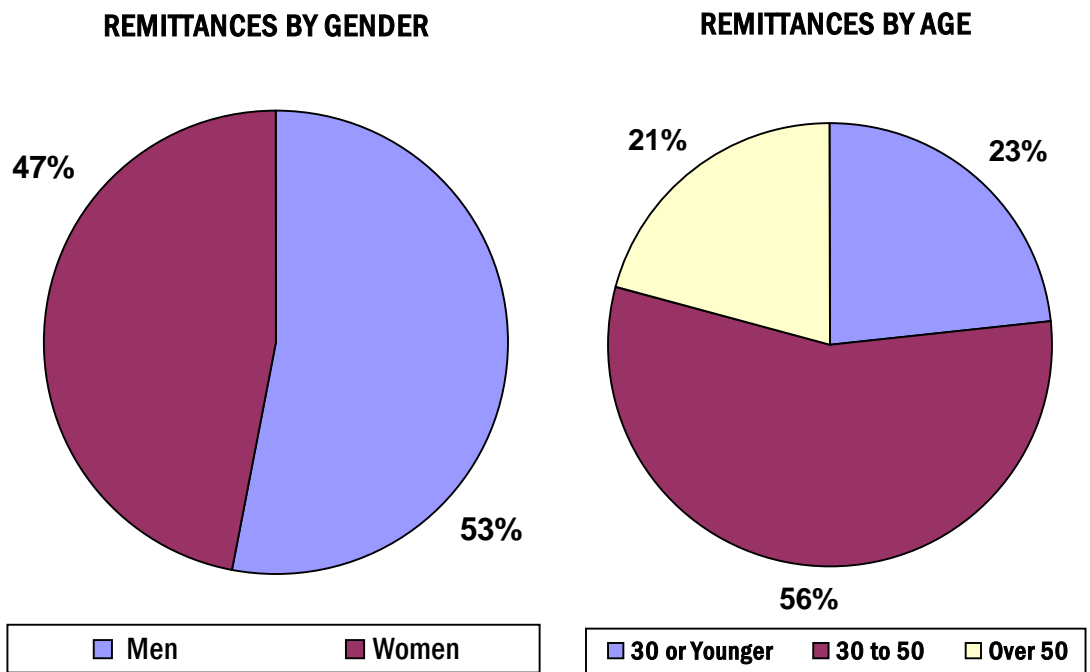
even, with men remitting around 53 percent and women remitting the other 47, despite some limited evidence indicating that diaspora women may work more hours and spend less on themselves.²⁶ According to the same survey, people at the working age between 30 and 50 years old were overwhelmingly the most likely to remit funds, with 56 percent of all remittances coming from that age group. People under 30 years old and over 50 each accounted for slightly over 20 percent of the remitter population.²⁷ Dahabshiil has also released some basic figures concerning average remittance amounts sent per transaction. While these figures are limited, they provide insight into the lifeline/familial support dimension of remittances while simultaneously illuminating some of the larger-scale, investment oriented remittance sending through deduction. Most notably, 90 percent of *Hawalaad* transactions are valued at less than US\$200 dollars at a time, and the mode transaction is US\$100 dollars.²⁸ Dahabshiil's omission of the upper echelon of *Hawalaad* transaction totals in the results released indicates that the gradual upward trend of money sent spikes substantially for that ten percent segment of the remitting population. Larger sums sent for investment, business, trade, and housing purchases clearly dwarf US\$200 dollars, and most likely represent a much larger piece of the gross remittance pie.

²⁶ Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 10-11.

²⁷ Shire, Saad. "Somali Remittance Companies and their Clients" in "Remittances and Economic Development in Somalia: An Overview." Ed Maimbo, Samuel. *The World Bank Social Development Papers: Conflict and Reconstruction*, no. 38 (2006): 25.

²⁸ *Ibid.*, 26.

FIGURES 3 and 4. Remittance Senders by Gender and Age



This chapter has served to outline why the *Hawalaad* system has been able to function and flourish from both a practical and a social standpoint. In the absence of an effective government and formal financial sector, the *Hawalaad* system instead capitalized and developed on pre-existing social linkages, initially to meet basic needs and later, as will be discussed in later sections, facilitating diaspora commercial endeavors. The combined allures of its monetary and cultural advantages have made it a pillar institution for Somali diaspora communities. In order to adequately flesh out this notion, the following chapter will be dedicated to surveying three of the most significant Somali diaspora hubs; Dubai, London, and Minneapolis.

CHAPTER 4: MAJOR DIASPORA HUBS: A CONCISE OVERVIEW

While this paper is primarily focused on development within Somalia and how diaspora initiatives arrive and manifest themselves on the ground, it is also important to briefly address the points of origin for these unique development endeavors. In the years following the collapse of the state, remittances from the Somali diaspora working abroad have accounted for the largest segment of domestic economic value. The remittance sector is remains the leading source of private funds in Somalia today. Somalis remit approximately US\$700 million to US\$1 billion annually from more than 40 countries,¹ possibly representing nearly 20 percent of Somalia's estimated gross US\$5.5 billion domestic product.²

This chapter will succinctly outline three of the largest and most influential Somali diaspora hubs; Dubai, London, and Minneapolis. Because statistics and data on Somali populations abroad are notoriously difficult to procure or accurately estimate, the subsequent city profiles will instead focus on painting a broader picture of how these diaspora communities are structured and how their members stay involved with both commercial and societal affairs at home.

¹ United Nations Development Program, *Analysis of the Macro-Economic Situation in South and Central Somalia*. June 2004. Centre for Research and Dialogue (CRD) (2004): 45.

² "Somalia," *CIA World Factbook*, available online at <https://www.cia.gov/library/publications/the-world-factbook/geos/so.html>. Accessed on 13 April 2009.

4.1 Dubai, United Arab Emirates:

Having received some of the original waves of Somali migrants during the oil boom era of the 1970s, Dubai has developed into the largest hub for Somali business in the world. Today, Somalis are both the largest and the oldest African expatriate community in Dubai.³ Virtually all of Somalia's larger, more successful private companies are headquartered in Dubai, including Somali airlines and telecommunications firms. *Hawaladars* operating in Dubai are frequently used as a mid-way point between *Hawaladars* in Western countries and *Hawaladars* in some of the more rural regions of Somalia.

The commercial epicenter of the Somali diaspora in the UAE can be found in the Al Ras district of Deira, Dubai. The area is known on the streets as "Gold Oasis," and is comprised of countless storefronts, radiant, glimmering, and all similarly named. The area is now referred to as "*Souq Es-Somal*" in Arabic, or "The Somali Souq." It is a swathe of jewelry shops selling everything from ethnic African jewelry decorated in rare gems to more modern necklaces that appear more akin to some type of body armor than a jeweler's design. All of it is Somali-owned and Somali-operated, and Somalis have virtually monopolized the West African jewelry market in Dubai.⁴ Customers from Mali, Ghana, and Senegal flow in and out of the shops by the hundreds each day. East Africans also comprise a huge percentage of customers.

³ Dickinson, Daniel. "Somalis Cash in on Dubai Boom." *BBC News*. 2005. Available from <http://news.bbc.co.uk/2/hi/africa/4535642.stm>. Internet; accessed 18 January 2009.

⁴ Paradkar, Shalaka. "Hope is Forever: Somalis in Dubai." *Gulf News Art & Culture Section's Friday Magazine*. 18 May 2006. <http://archive.gulfnews.com/articles/06/05/18/10040858.html>.

While Somalis have been in this neighborhood for decades, the first Somali woman to set up shop in this particular part of the world entered in 1997 from Toronto, Canada, another hub for the Somali diaspora. Somalis also operate around a dozen busy textile and clothing shops in the Al Ras district.

Under sponsorship of the United Nations Development Program in Somalia, the Somalia Business Council was formed in Dubai in 2005.⁵ Among the slew of Somali-owned and run businesses are a pair of private Somali airlines headquartered in Dubai, including Star Africa Airways and Jubba Airways. Additionally, the popular Djibouti-founded Daallo Airlines is also headquartered in Dubai, and offers numerous services to Somalia and Somaliland. Somalia's aforementioned outstanding telecommunications service providers are also largely based and headquartered in Dubai. At least one *Hawalaad* branch is found on every street, next to Somali restaurants, hotels, internet cafes, and printing shops. The Somali Business Council in Dubai now formally consists of over 200 companies. Important to note in the vein of the formal to informal distinction in Somalia is that "informal" members of the council may double or even triple that membership figure. The Somalia Business Council in Dubai wields a surprising amount of power within Somali itself, somewhat mirroring services and administrative tasks that would normally have been under the umbrella of a central government.

⁵ United Nations Development Program, *Somali business community to create Chamber of Commerce and Industry*. Press Release, September 2005.

However, as the Chairman of the Council Sharif Ahmad Ba'alawi stated in 2006,

"Somalia has not had any effective government for almost 2 decades now, no banks, and no state-security. This is why Somali businesses are run from Dubai, and to a lesser extent, Nairobi... To you as an outsider, the situation seems terrible- your opinion is based on what you see on television or what you read in the newspapers. But to us, it's really not that bad. We know the people we are dealing with and are familiar with the culture of the place. It would probably be more risky for me to do business in another African country."⁶

Ba'alawi was raised in Mogadishu, but left for Dubai when the government collapsed and war broke out. He has spent his time in Dubai since, but managed to acquire a Yemeni passport in the process. He has invested heavily in Somali territory, dealing with companies that export rice, sugar, cement, and other key goods into Somalia.

Additionally, a large number of Somali firms that operate on the ground in Somalia are headquartered in Dubai. These companies make use of the Emirates' formal banking systems as well as far simpler access, in terms of legality and recognition, to international markets. One of the largest and most successful companies operating in Somalia, the Somali Telecom Group, is headquartered in a high rise above Nasr Square in Dubai. The Somali Telecom Group will be discussed in greater detail in Chapter Five.

Business for Somalis in Dubai is generally good. As mentioned before, many storefronts, ranging from jewelry and clothing to net cafes and *Hawalaad* establishments, are Somali enterprises in Dubai. These businesses can cater to any and

⁶ Paradkar, Shalaka. "Hope is Forever: Somalis in Dubai." *Gulf News Art & Culture Section's Friday Magazine*. 18 May 2006. <http://archive.gulfnews.com/articles/06/05/18/10040858.html>.

every interested customer, but Dubai's Somali community largely provides its own commercial backbone. Additionally, there are jobs in the service sector for those migrants with less education. Somalis with higher degrees of education and more language proficiency often work as professors or teachers in schools in the Emirates.

4.2 London, United Kingdom:

As one of the longest-standing bastions of the Somali diaspora, London provides a solid example of a diaspora community with strong cultural and financial ties to home. While Somalis have been a presence in the city for decades, migration to London greatly accelerated in the decade following the collapse of government in their home state. Estimates in 1994 indicated somewhere around 25,000 Somalis were residing in London.⁷ By 2003, estimate figures had almost quadrupled, indicating that around 95,000 Somalis were residing in the greater London area.⁸ While Somali diaspora population statistics are notoriously difficult to measure accurately due to a host of complex issues including convoluted systems for assigning asylum and refugee status, underreporting on behalf of Somali families for fear of attracting attention to their households, and questions on generational issues concerning Somalis born in the United Kingdom, they do provide some insight into the size and scope of London's Somali diaspora.

⁷ Berns-McGown, Rima . *Muslims in the Diaspora: The Somali Communities of London and Toronto*. London, UK: University of Toronto Press, 1999. 240.

⁸ Holman, Christine and Naomi Holman. *First Steps in a New Country: Baseline Indicators for the Somali Community in LB Hackney*. London, UK: Sahil Housing Association. 2003. 6.

The districts of Wembley to the north and Tower Hamlets in the east have become the de facto Somali enclaves in London, with a large number of *Hawalaad* offices as well as Somali-run restaurants and shops dotting commercial areas. A typical square in Wembley shows the facades of four *Hawalaad* storefronts, with two of those offices doubling as internet cafes or call centers. These dual-use facilities allow a remitter to immediately convey any codes or identifying information to their recipients, a handy feature on which many Somalis are reliant.

Despite the belief that Somalis fare poorly in terms of salary and job security when compared to London's other migrant populations, they have been able to maintain steady remittances home. Unlike in Dubai or even Minneapolis, the professional experiences and skills in the Somali diaspora are categorized as "underutilized" in London. Former doctors, professors, or engineers are often found working as taxi drivers or are unemployed.⁹ However, *Hawaladars* are prevalent in the city's heavily Somali-populated quarters, and general indicators show that remittance flows back to Somalia are growing.

One prototypical *Hawalaad* company in London is the Xawaaladda Red Sea, also known as the Red Sea Express. According to owner/manager Adam Ismail Hassan, well over 200 Somalis use his firm to remit money everyday, and that the average

⁹ Harris, Hermoine. *The Somali community in the UK: What we know and how we know it*. London, UK: Information Centre About Asylum and Refugees in the UK, 2004. 38.

transaction is around US\$200. Mr. Hassan stated that most remitters rely on the clan/sub-clan means of identification. Mr. Hassan equated the different layers of the traditional clan identification system to ascertaining an exact address; the clan is the region, while the sub-clan, sub-sub-clan, and so on further narrow down to the equivalents of towns, streets, and addresses. Also according to Mr. Hassan, even Somalis residing in London on welfare benefits generally are able to send some sum of money back home¹⁰.

In efforts to compromise with various financial regulations coming into play following the attacks on September 11, 2001, the Xawaaladda Red Sea implemented a number of additional identification and record-keeping procedures, beginning in 2003. Customers wishing to remit more than US\$3,000 via his firm are required to produce a photo-ID card as well as fill out a single form with their name, address, and telephone number. While these "regulations" on behalf of Mr. Hassan and Xawaaladda Red Sea certainly will not catch all insalubrious informal economic activity, it is providing a start. There is also indication that the host government is willing to compromise and work with the informal transfer system as well; Mr. Hassan displays an official inspection certificate on his wall affirming his shop's compliance with British money laundering laws.

Social integration has been more difficult for Somalis in London than some of other major diaspora hubs across the globe. London schools rarely have any Somali-speaking staff on hand, inhibiting the education of subsequent generations of Somalis

¹⁰ Winter, Joseph. "Telecoms thriving in lawless Somalia" BBC News. 19 November 2004. Available from <http://news.bbc.co.uk/2/hi/africa/4020259.stm>. Internet; accessed 20 February 2009.

in the UK. Somalis in London have also increasingly been recognized for their contributions in creative industries, with Somali authors such as Shafi Sayed and Zahrah Awaleh gaining popularity in UK literary circles. This subtle integration of British and Somali cultures can also be seen at the neighborhood level, with the Tower Hamlets neighborhood celebrating "Somali Week" in mid-June each year.¹¹

4.3 Minneapolis and St. Paul Minnesota, United States

The state of Minnesota is one of the most popular destinations for Somalis immigrating to the United States. Somalis arrived mainly in the mid 1990s, during the fallout from the collapse of government in their home country. In 1994 and 1995, larger groups of Somalis began being officially resettled to Minneapolis as refugees.¹² But the large majority of Somalis currently residing in Minneapolis, at least sixty percent, came from other states.¹³ The establishment of a substantial community of Somalis in the cities amplified Somali migration flow to that area; whether relocated as refugees in the early 1990s or emigrating for more economic reasons, the twin cities of Minneapolis and St. Paul have become a large hub for Somalis in America.

¹¹ Saini, Angela. "Young, Somali, and Proud." *BBC News*. 11 June 2006. Available from http://www.bbc.co.uk/london/content/articles/2006/10/30/young_somalis_feature.shtml. Internet; accessed 14 March 2009.

¹² Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 9.

¹³ Mattessich, Paul. *Speaking for Themselves: A Survey of Hispanic, Hmong, Russian, and Somali Immigrants in Minneapolis-St. Paul*. Saint Paul, MN: Wilder Research Center, 2000. 7.

The total number of officially resettled Somalis is estimated at approximately 6,000. Some recent studies have indicated that the Minneapolis metropolitan region plays host to the largest number of Somalis in the US. The US also has substantial populations of Somali migrants in San Diego, Portland Maine, Phoenix, and Columbus Ohio. However, the problem mentioned concerning accurate statistics is illustrated in the Minneapolis case; there are no precise figures available and those that exist are clearly off the mark. Data from the US Census in 2000 indicated that around 11,000 Somalis live in Minnesota, constituting approximately 0.2 percent of the state's total population¹⁴.

It has been strongly suggested that the figures from the federal census greatly underestimate the actual number of Somalis residing in the region. This is because many extended Somali families reside in single homes, exceeding residential code limits. Because of these living situations, they often underreport their numbers. Public school enrollment statistics taken in 2000 actually suggest that anywhere between 15,000 and 30,000 Somalis lived in Minnesota, and that this number was still growing.¹⁵

In addition to the fact that thousands of Somali refugees were formally relocated to Minnesota by the United States government in the mid 1990s, Minneapolis and St. Paul have also interestingly enough become a popular destination for Somali diaspora

¹⁴ United States Census Bureau. United States Census 2000, American Factfinder, Quick Tables: P13 Ancestry. Available from www.census.gov. Internet; accessed on March 15, 2009.

¹⁵ Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 9.

relocation within the United States and Canada. The cities have a number of attributes that have made it attractive to Somali migrants. Minnesota's economy has generally been strong and always varied with low unemployment rates. There are a number of assembly plants and meat factories in the area that often allow employees to work overtime. Less educated Somalis also often work as security guards, tax drivers, or dry cleaners.¹⁶ American factories in these towns with large percentages of Somalis even provide facilities like Somali translators and bi-lingual notices, thus enabling non-English speakers to work there without difficulties.

There are also a number of employment niches that more educated Somalis have been able to fill, and Minneapolis is home to a number of Somali lawyers, doctors, professors, and other high-skill, high-education requisite jobs.¹⁷ Regardless of the widely varying degrees of financial success and stability among the Twin Cities' Somali populations, almost all are able remit some money. A study carried out in 2000 estimated that around US\$7 million dollars was remitted out of Minnesota each month with an upward trend.¹⁸

The second reason is tied to the fact that Minnesota is a state with a large population with migrant origins, predominantly Scandinavian but also more recently the Hmong refugees. This manifests itself in more flexible social arrangements and integration-

¹⁶ Harris, Hermoine. *The Somali community in the UK: What we know and how we know it*. London, UK: Information Centre About Asylum and Refugees in the UK, 2004. 41.

¹⁷ Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 11.

¹⁸ Omer, Abdusalam. *A Report on Supporting Systems and Procedures for the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala)*. Nairobi, Kenya: United Nations Development Programme in Somalia, 2002. 15.

conscious services provided, for example in the sectors of education and health care. Minnesota's long history of dealing with diaspora populations has helped foster a more welcoming attitude in general. Additionally, according to Cindy Horst, Minnesota has allowed the creation of a "parallel (Somali-styled) economy" that has allowed the diaspora population to conduct business in the same manners they would back home.¹⁹ There are Somali shops, *Hawalaad* outlets, restaurants, and more. There are also a number of dedicated Somali NGOs operating in the two cities. For many Somali businesses in the cities, the built-in diaspora market is a profitable one; providing goods and services to the now well-established Somali community in the area can be a solid alternative to some of the lower-wage labor-intensive jobs mentioned above.

So in short, Somalis live in Minnesota because of the opportunities and services provided there, the fact that it is a welcoming and relatively safe place to live in and because of the large Somali community there. This effect is self-amplifying; as the community grows, more and more Somalis have relocated there to be with family, kin, or friends.

¹⁹ Horst, Cindy. "Money and Mobility: Transnational Livelihood Strategies of the Somali Diaspora." *Global Migration Perspectives*, no. 9 (2004): 10

4.4 Shifting Focus

Now that we have established how the *Hawalaad* works, and why it has been able to function so well, we will explore the practical dimensions of the informal economy and the *Hawalaad* system at a larger, more macro-economic level. The subsequent chapter will look at "the bigger picture," and analyze various diaspora communities and how their remittance activity, which is conducted primarily through the *Hawalaad* conduit, affects and is affected by conditions on the ground in Somalia. This will include a discussion on how members of the Somali diaspora have been able to successfully negotiate the unstable political and business situation in their homeland, and how they go about making critical decisions in their endeavors within Somalia.

CHAPTER 5: NAVIGATING DANGEROUS ENVIRONS AND MECHANISMS FOR DEVELOPMENT IN SOMALIA

We have discussed the theoretical aspects of diaspora involvement in Somalia, and have conducted an analysis of the mechanics of the *Hawalaad* system as a primary avenue for diaspora involvement in Somalia. However, how is the outcome of this relationship dictated? In an environment as reputedly unstable and hostile as Somalia has been portrayed, how does an entrepreneur or investor in the diaspora navigate the dangerous and complex political terrain? The notion that guides merchants and traders through Somalia's turbulent economy is essentially that all politics are local politics. This means that information about whatever may be affecting business is available as long as the traders or merchants are plugged into the right part of the network.

This chapter will explore various types of development and investment that have been successful on the ground in Somalia, the various social mechanisms in place that have facilitated that success, and a discussion about the dangers that must be circumvented and how they have been able to do so.

5.1 TRUST AS THE PRIMARY MECHANISM FOR BUSINESS RELATIONSHIPS

As was evident in the preceding chapter, relationships in Somalia are largely built on trust. This is particularly the case between the diaspora and the myriad traders and middlemen with whom they do business. Because of so many variables known and unknown as well as the fact that very large sums of cash are involved, diaspora entrepreneurs and investors rely solely on trust, usually in their clan and sub-clan ties, to ensure honesty and success in their endeavors. This relationship was present before the fall of Barre but the ensuing political and clan-based turmoil has only served to reinforce this particular basis of business relationships.¹

Clan lineage and genealogy has grown to be the main determinant on whether someone can or can not be trusted.² This notion of political and business division based on genealogy has been present throughout Somalia's history, but has become the principle mode of determining trust after the combination of the collapse of the central government along with the violent manifestations of clanism that broke forth in the subsequent power vacuum. As noted by Anna Simons in 1998, this dynamic "brutally insured that other forms of identity do not occupy political space."

¹ Ahmed, Ismail, and Reginald H. Green. "The Heritage of War and State Collapse in Somalia and Somaliland: Local Level Effects." *Third World Quarterly*, no. 20 (1999): 125.

² Simons, Anna. Somalia: The Structure of Dissolution. In *The African State at a Critical Juncture: Between Disintegration and Reconfiguration*. Eds. Leonardo Villalon and Phillip Huxtable, 57-73. Boulder, CO, 1998. Lynne Rienner Publishers. 60.

These amplified divisions have the potential to spark new conflicts and accelerate any pre-existing hostility or mistrust between clans or sub-clans, since social interaction and communication are vital for facilitating trust-based relationships.³ However, there are many Somali entrepreneurs that have long understood the inverse of this relationship, and have maintained high degrees of communication and social interaction, existing within the framework of various societal networks that provide invaluable information. Surprisingly, the seemingly innumerable variables involved in Somalia's conflicts and clan-based society have seemingly become more manageable in recent years. For example, while commerce has clearly been affected by protracted conflict, it has not been affected exactly how one might have expected. The departure of the "peace-building" entities and the UN by mid-1995 actually seemed to bring a degree of stability to the local economy.⁴ A quote from an unpublished paper cited by Michael Van Notten in 1998 states that "business is booming in this unusual country where taxation and government regulation used to destroy almost all private business ventures... its sin is that it defeated the UN army that came to restore the central government that the Somali nation had abolished in 1991."⁵ Somalia saw trade, in a blend of formal and informal contexts, increase substantially despite the lack of any state financial apparatuses, such as a central bank or ministry of finance.⁶ Somalis have been able to figure the way to avoid much of the "unpredictable" through the social networking, both within their own clan lineages and by linking up through a

³ Giddens, Anthony. *The Consequences of Modernity*. Stanford, CA: Stanford University Press, 1991. 112-113.

⁴ Prunier, Gerard. "Somaliland Goes It Alone." *Current History*, no. 97 (1998): 223.

⁵ Van Notten, Michael (under pen name Graham Green). "Laissez Faire in Africa." Economic Government Group, 1998, <http://www.econgov.org/articles/index.shtml>. Unpublished paper.

⁶ Little, Peter. *African Issues: Somalia: Economy Without a State*. Bloomington, Indiana: The International Africa Institute, 2003.

variety of other societal-market constructs, which will be discussed later in this chapter.

5.2 NAVIGATING A TREACHEROUS BUSINESS ENVIRONMENT

The major problem for Somalis from all walks of life, abroad or at home, continues to be the region's vast insecurity and instability. This insecurity causes obvious problems for the Somalia's commercial community: diaspora entrepreneurs, remittance receivers on the ground, and of course the various remittance company agents who are responsible for collecting and distributing hundreds of thousands of dollars in cash on a daily basis.

5.2.1 *Hawalaad Operators and Security*

To counter threats to security, remittance companies are forced to adopt a number of direct and indirect countermeasures. While the role of the *Hawalaad* is known and generally respected by Somalis across all clan-lines,⁷ the resources and amounts of cash involved in daily transactions presents a constant security threat regardless of the situation. Directly, remittance companies are forced to hire their own protection, which frequently involves a makeshift solution often involving a mix of local militiamen, fellow clansmen, or "professional" security groups.⁸ While all *Hawalaad*

⁷ Medani, Khalid. "Financing Terrorism or Survival?: Informal Finance and State Collapse in Somalia, and the US War on Terrorism." *Middle East Report*, no. 223 (2002): 3.

⁸ Lindley, Anna. *Somalia Country Study*. Oxford, UK: University of Oxford Centre on Migration, Policy, and Society, 2005. 10.

firms are founded and generally affiliated with one particular clan,⁹ it is only on occasion that they would discriminate in terms of their clientele or in terms of facilitating security for themselves.¹⁰ Armed militia forces sometimes wax and wane with power in a particular region, and the *Hawalaad* companies have been sometimes forced to rely more on the "protection" money paid to any contending factions in the area as more of a deterrent than the actual "protection" offered by those militias. The cost of hiring such physical protection starts remarkably low and generally ends up prohibitively expensive. One researcher reported that heavily-armed protection or escort cost around five US dollars per person, per day in 2004,¹¹ while other reports indicate that armed guards can often charge more than 40 or 50 US dollars per day.¹² By paying off both sides of the conflict in a discreet manner, *Hawalaad* companies work to guarantee some measure of security by ensuring that they do not become a target of either side.

Additionally, at certain points in time, a *Hawaladar* with more cash than necessary is required to send some of his excess funds to a *Hawaladar* with insufficient funds. These trips often require crossing through areas under the control or influence of

⁹ Menkhaus, Kenneth. "Remittance Companies and Money Transfers in Somalia." Unpublished paper, (2001): 5.

¹⁰ Gundel, Joakim. "The Migration-Development Nexus: Somalia Case Study." In *The Migration-Development Nexus*, eds. Nicholas Van Hear and Nina Sorenson, 233-258. Geneva, Switzerland, 2003. The International Organization for Migration. 247.

¹¹ Samatar, Abdi, and Phil O'Keefe. "Revisiting Somalia." *Review of African Political Economy*, no. 31 (2004): 535.

¹² Fisher, Ian. "Somali Businesses Stunted by Too-Free Enterprise." *Mogadishu Journal*. 2000. Available from <http://www.globalpolicy.org/nations/somalia.htm>. Internet; accessed 7 February 2009.

various parties, and merit their own armed escort.¹³ However, in less contested regions, the security situation is much less convoluted, with business cleared and sanctioned by whichever group is in charge for that particular region. Physical security might be provided by employees of the company itself, often family or clan members. Clan tradition as a mechanism for security is more effective, and thus more pronounced, in these situations of lesser severity.

This notion of assuming "in-house" security measures also manifests itself within the indirect, or preventative measures undertaken by *Hawalaad* companies to bypass the dangers of operating a purely cash business in Somalia. These measures include employing intensive screening procedures for all of their staff and, as is becoming more common in Western remittance-sending countries, their customers as well. For example, all companies have hundreds of employees stationed throughout the country. Potential employees are assessed on their knowledge of the geographical regions, financial procedures, telecommunications skills, and computer abilities.¹⁴ Once the necessary job qualifications are fulfilled, the potential employees are then screened for proof of identity, which is increasingly difficult in a country lacking a central government and thus any recognized form of official identification documentation and educational records that the individual has. The companies then identify the individual's clan and community and use references from neighbors, family members,

¹³ Shire, Saad. "Somali Remittance Companies and their Clients" in "Remittances and Economic Development in Somalia: An Overview." Ed. Maimbo, Samuel. *The World Bank Social Development Papers: Conflict and Reconstruction*, no. 38 (2006): 29.

¹⁴ Omer, Abdusalam, and Gina El Koury. "Regulation and Supervision in a Vacuum: The Story of the Somali Remittance Sector." In *Remittances: Development Impact and Future Prospects*, eds. Samuel Maimbo and Dilip Ratha, 226-243. Washington, DC, 2005. The World Bank. 232.

elders, and other community leaders to prove the prospective employee's identity, trustworthiness, and reliability.¹⁵

Finally, *Hawalaad* operations look to protect themselves and their customers against theft or other business violations by the prospective employee. The remittance companies initially require the individual to provide a substantial amount of collateral, sometimes personally, but usually through a family member who has money or businesses, of several thousand US dollars. Once the collateral is provided and the employee is hired, the individual is prohibited from conducting transactions above the amount of the collateral. Therefore, should something go awry, the *Hawalaad* company maintains a claim back on its money and can insure its customers against a loss.¹⁶

5.2.2 Diaspora Entrepreneurs and Security

Networking and information gathering have been correlated to greater social resilience,¹⁷ and nowhere is this relationship more evident than in Somalia's business sector. With all of the dangerous brands of uncertainty facing economic activities in Somalia, successful merchants at home or abroad have always been adaptable, inductive information aggregators and usually maintain market relationships on as many sides of as many conflicts as possible. Because businessmen are generally suspicious and untrusting of unknown middlemen and traders, they often rely on social

¹⁵ Ibid.

¹⁶ Ibid. 233.

¹⁷ Winkels, Alexandra, Neil Adgers, Mick P. Kelly, Luong Q. Huy, and Catherine Locke. "Migration, Remittances, Livelihood Trajectories, and Social Resilience." *Ambio Journal of the Royal Swedish Academy*, no. 31 (2002): 359.

networks and means to reinforce business relationships. These include networking with any actor that might be beneficial to business, including market middlemen, militia leaders, religious figures, and clan authorities.¹⁸

Trade has always figured prominently into Somalia's economy, and today the situation is not too much different. Somalia's economy has since long before the collapse of the state been external and market-oriented. The presence of a far-flung commercial diaspora and the compression of time and space offered by telecommunications technologies have only reinforced this, and an environment relatively devoid of state economic interference further compounds this notion. Traders and merchants in Somalia's border regions have always invoked ethnic and cultural relations in order to facilitate improved business. No matter what the regional economic trend, feast or famine, these social relations would be used by a trader or businessman to simultaneously provide valuable security information as well as leverage his way into new markets.

Addressing physical security concerns that cannot be bypassed with technology or social networking is remarkably straightforward in most investments or trades in Somalia today. Those with the money simply pay for security forces, usually armed militiamen, to ensure safety during transactions or construction endeavors. Warning information indicating when or where there may be an outbreak of violence is often available, and most of Somalia's larger-scale businesses maintain information

¹⁸ Menkhaus, Kenneth. "Remittance Companies and Money Transfers in Somalia." Unpublished paper, (2001): 6.

networks that blend a number of clans, alignments, and regional powers that allows them to stay abreast of any security dilemma that may arise and negatively affect their business.¹⁹ Somali societal traditions of flexibility and fluidity remain key attributes for many business projects in Somalia:²⁰ many entrepreneurs that operate in a number of regions can afford to halt business, permanently or temporarily, in the event that they receive information that a looming problem might be too costly to overcome, such as a militia or political faction seeking to see that business out of the market. However, such scenarios are surprisingly rare in Somalia, where local powers would rather make use of a service and possibly enjoy a substantial "discount" for presiding over that business' territory.²¹

By nature, Somali traders and businessmen are particularly wary when they are operating outside of their home regions as "stranger" traders. When these larger-scale traders are unable to rely on familial or kinship ties in their regions of business, they instead seek to foster similar relationships and information networks using a form of clientele-ism.²² These relationships can be constructed, built upon, and even mobilized, and are particularly useful in times of uncertainty and crisis. For example, large-scale Somali traders based in Dubai still maintain information-gathering

¹⁹ Maimbo, Samuel, Mayank Patel, Walter Mahler, and Hussein Siad. "Financial Sector Developments in Somalia: Central Banking and Financial Services in an Uncertain Environment" in "Remittances and Economic Development in Somalia: An Overview." Ed. Maimbo, Samuel. *The World Bank Social Development Papers: Conflict and Reconstruction*, no. 38 (2006): 49.

²⁰ Gundel, Joakim. "The Migration-Development Nexus: Somalia Case Study." In *The Migration-Development Nexus*, eds. Nicholas Van Hear and Nina Sorenson, 233-258. Geneva, Switzerland, 2003. The International Organization for Migration. 255.

²¹ Akam, Simon. "Mobile success emerges amid the mayhem." *The Financial Times*. 2006. Available from http://us.ft.com/ftgateway/superpage.ft?news_id=fto100320061137399483&page=2. Internet; accessed 10 March 2009.

²² Little, Peter. *African Issues: Somalia: Economy Without a State*. Bloomington, Indiana: The International Africa Institute, 2003. 125.

relationships with contacts on the ground ranging from market middlemen to religious figures²³ to militiamen to current and even former business partners.²⁴ However, these relationships also have the capacity to sour quickly in the face of competition, particularly in a free market as distorted as the one in Somalia.

It is also important to note that these mechanisms are far from wholly effective. Rather, they simply represent the best, most effective coping tools available to entrepreneurs and businessmen operating in Somalia. Armed convoys are still requisite if traveling along certain dangerous routes or traveling with a substantial amount of money.²⁵ Business still suffers from bouts of banditry and random outbreaks of violence, but the system in place today allows those in business to minimize the frequency and effects of such problems.²⁶

5.2.3 Remittance Receivers and Security

Fortunately, most remittance receivers fall under the umbrella of security drawn over the remittance companies themselves. Remarkably, the security situation for many of the "lifeline" remittance receiving demographic in Somalia has been fairly stable.²⁷

This is unlike the situation for Somali refugees in neighboring Kenya, where

²³ Ballard, Roger. "Hawala Transformed: Remittance-driven Transnational Networks in the post-Imperial economic order." *University of Manchester Centre for Applied South Asian Studies*, Conference paper. (2004): 14.

²⁴ Little, Peter. *African Issues: Somalia: Economy Without a State*. Bloomington, Indiana: The International Africa Institute, 2003. 118, 164.

²⁵ Doyle, Mark. "Somalia's Security Nightmare." *BBC News*. 2008. Available from <http://news.bbc.co.uk/2/hi/africa/7281539.stm>. Internet; accessed 18 January 2009.

²⁶ Lindley, Anna. *Somalia Country Study*. Oxford, UK: University of Oxford Centre on Migration, Policy, and Society, 2005. 7-8.

²⁷ Menkhaus, Kenneth. "State Collapse in Somalia: Second Thoughts." *Review of African Political Economy*, no. 30 (2003): 407.

harassment, abuse, and robbery is a constant problem for people receiving money from relatives abroad.²⁸ The remittance pick up process in most parts of Somalia is not particularly fraught with danger, as most remittance receivers are very familiar with their local *Hawaladar* and are equally aware of the surrounding socio-political climate. Security remains a top concern for many remittance receivers. However other portentous threats loom with equal severity. In Somalia's border areas and among the pastoralist communities, threats of disease or drought are usually more worrisome and more potentially disastrous than a shift in political influence in the same region.²⁹

While sharp challenges to this idea of ethnic trust were particularly evident during the years of a centralized government, evidenced by acts of violence, corruption, or theft, the situation at the community level has stabilized significantly as residents generally subscribe to some form of local governance. Improved security conditions, due primarily to the more predictable cycles of fighting that emerged following the exit of the US and UN, have resulted in a combination of lowered market transaction costs and higher impetus for the remittance senders to transfer money back home. The costs of most financial services eventually mirrored their prices from the pre-war period, and in most cases today have actually dropped substantially lower, with the security situation accounted for as well as possible.

²⁸ Campbell, Elizabeth. "Formalizing the informal economy: Somali refugee and migrant trade networks in Nairobi." *Global Migration Perspectives*, no. 47 (2005): 25.

²⁹ Little, Peter. *African Issues: Somalia: Economy Without a State*. Bloomington, Indiana: The International Africa Institute, 2003. 126.

5.2.4 Summing Up On-the-Ground Security

It would seem that many Somalis, businessmen and remittance receivers, have forged a path for themselves in what would otherwise seem to be an anarchic environment. While security remains a constant and primary worry for those doing business in Somalia, other concerns such as transport or excessive competition have become equally compelling.³⁰ This in itself is indicative of the gradual stabilization that has occurred as a byproduct of the success of Somalia's informal economy. However, it is important to remember the original context of the situation in order to avoid portraying the system currently in place as anything but a dysfunctional path in which there is rarely a better alternative. It remains the case that these dimensions of security provided by cultural or societal-based ties are regularly and sharply challenged by the ever-present violence in Somalia. Somalia's commercial community today still finds itself obligated to pay bribes, tariffs, or fees to various faction leaders or militia commanders in order to make use of certain routes or for port usage.

While acts of brutality and violence are often seemingly random to outside observers, many traders and entrepreneurs have found ways of navigating these dangerous business environs; it has become a matter of being plugged into the right social networks.³¹ In addition, the spread of telecommunications technologies have tightened these networks and exponentially sped up the information gathering process.

³⁰ Waldo, Mohamed. "Somalia Remittances: Myth and Reality" in "Remittances and Economic Development in Somalia: An Overview." Ed. Maimbo, Samuel. *The World Bank Social Development Papers: Conflict and Reconstruction*, no. 38 (2006): 22.

³¹ Menkhaus, Kenneth. "State Collapse in Somalia: Second Thoughts." *Review of African Political Economy*, no. 30 (2003): 411.

Indeed, shrewd Somalis local or abroad, remittance receivers or businessmen, are able to stay abreast of developments in their own local political situation by making use of the unique social networks found in Somali culture.

5.3 FLESHING OUT SOMALIA'S HUMAN INFORMATION NETWORKS

Within the Somali framework, economic agents such as middlemen and traders have not been particularly negatively impacted by the collapse of the state. In fact, these actors have grown to fill the void left by Somalia's lack of political and economic institutions. Somalia's economy relies on a few actors not found in the formal systems found elsewhere. There are bewildering layers of buyers, sellers, and agents representing each side of a transaction within Somalia's informal economic network. In fact, very little has changed over the course of the past two decades in terms of social networking with the exception of the technology used and the scope involved. Cash is still the dominant form of market transaction, although some traders and businessmen may advance a small amount of credit to certain known middlemen. Even on nominal amounts of credit or paid small fees in cash, those middlemen have a vested interest in that particular business endeavor's profitability.

The relationship is almost symbiotic, in which businessmen must trust that the middlemen will help negotiate the best possible deals, honestly report sales and market conditions present in the operation's area, and of course not abscond with the money.

The middlemen depend on the good business to improve their own long-term financial prospects. Many actors in Somali society invariably serve as middlemen in some capacity or another while simultaneously filling other social roles. A thorough discussion of these actors and their various functions in Somalia would be beyond the scope of this study. However, two key actors in Somali society known as the *Dilaal* and the *Nabadoon* will be discussed, with an emphasis on their roles within Somali markets.

5.3.1 The Dilaal:

The term *Dilaal* comes from the Arabic language, meaning a person who serves as a middleman and facilitates negotiations. The *Dilaal* in Somalia is an individual who works in a market, and may represent buyers, sellers, or both simultaneously. As an actor in smaller market affairs, the *Dilaal* is actually a common market feature across Islamic parts of East and West Africa.³² The *Dilaal* stakes his reputation and word on the fairness of prices, the veracity of claimed market conditions, and the reputations of his own clients to each other or other *Dilaals*. *Dilaals* also are often responsible for intelligence gathering, particularly with concern to security situations. Areas of hostility and open conflict are usually well-known in Somalia, and are easily avoided if one is plugged into the social networks properly. Additionally, the right *Dilaal* may be able to facilitate "passage" through such a conflict zone if the combination of clan affiliation and bribes or "fees" is right. The *Dilaal* also acts as a guard against the sale of stolen animals or stolen products. This relationship between merchants, buyers or

³² Cohen, Abner. *Custom and Politics in Urban Africa*. Berkeley, CA: University of Berkeley Press, 1969.

sellers, and the *Dilaal* is built almost exclusively on trust. Because so many variables and relative unknowns exist when conducting business in an economy such as Somalia's, the role of trust is paramount when one considers the fact that any notions such as "legal recourse" are nonexistent.

The *Dilaal* as an actor also represents a further blurring of the formal to informal distinction in Somalia. Today, all *Dilaals* are registered with their local governance or administrative authorities, usually militia commanders or clan elders, and they often pay a fee to act as "official" market brokers and middlemen. This echoes the *Dilaal* situation prior to the collapse of the state, in which *Dilaals* were required to register with the local and national governments as well as pay a nominal amount of taxes.³³

5.3.2 The Nabadoon:

The role of the *Nabadoon* is rooted in clan structure as a sort of local political negotiator, a person who helps ensure mutual approval on business transactions and helps to mediate any conflicts that may arise. While this is closely related to the function served by the *Dilaal*, the *Nabadoon* is able to work with more diverse leadership figures outside of the market framework. The *Nabadoon* works with clan elders and local authority figures, which includes figures as diverse as religious clerics, militia leaders, clan elders, and even Somali women's associations.³⁴ The

³³ Little, Peter. *African Issues: Somalia: Economy Without a State*. Bloomington, Indiana: The International Africa Institute, 2003. 109.

³⁴ Menkhaus, Kenneth. "Somalia: Political Order in a Stateless Society." *Current History*, no. 97 (1998): 220.

Nabadoon is also frequently responsible for settling *Diya* payments between *Diya* groups. *Diya* groups are social units, ranging from a few people to large portions of sub-clans that take collective responsibility for their own security. *Diya* groups enter agreements with other *Diya* groups that obligate them to compensate each other in the form of *Diya* payments if any harm or damage is caused by someone under the umbrella of their *Diya* group.³⁵ *Diya* payments, essentially work as an important security tool, as they are essentially a sanction against conflict and violence. There are numerous currencies and commodities in which *Diya* payments can be settled, although the traditional capital exchanged is usually in the form of livestock. However, examples of *Diya* payments exist as diverse as up to 100 camels per person killed to forced marriages involving women hailing from the violating clan.³⁶ *Diya* payments grew increasingly irrelevant at the broader levels of society, primarily because *Diya* debts incurred during the periods of extreme violence quickly became insurmountable. However, at the local levels, *Diya* still functions as a valuable security tool and facilitator of information networking.

5.4 FOSTERING STABILITY THROUGH THE INFORMAL ECONOMY

Following the fall of Barre, local Somali communities and later entrepreneurs abroad were left to resort to their own devices and to come up with new mechanisms not only

³⁵ Le Sage, Andre. "Stateless Justice in Somalia: Formal and Informal Rule of Law Initiatives." *Centre for Humanitarian Dialogue*, (2005): 5.

³⁶ *Ibid*: 33, 36

to survive financially but also to defend themselves from the increasingly violence-prone militias and warlords. Financial abilities became requisite to staving off potentially violent encounters with less-than salubrious militiamen operating in the vicinity. It was in this vacuum that the pervasive network of informal finance institutions quickly emerged to feed and support the economy as well as help disseminate information.

The informal economy has adopted or co-opted a number of characteristics found in formal systems, while leaving gaping deficiencies in others. The Somali shilling, despite having no central government to validate it, stabilized significantly following the initial drop in value it took following the collapse of the state. Local institutions gained in the vacuum, sometimes flourishing in the absence of any sort of top-down administrative body. However, central government and regulated banking fills a number of roles that have gone unaddressed since the collapse of the state. While the government in Somaliland has printed some new currencies, many those same ragged and withering Somali shilling notes continue to be heavily circulated. In order to preserve the aging currencies while simultaneously defending themselves against currency fluctuations, which are largely determined by local markets and political activities, the remittance companies deal only in United States dollars. They will exchange money for their customers, but only remit and distribute dollars. Nevertheless, the currency problem remains a constant issue, especially when large sums of money must be converted into the Somali shilling.

A central bank traditionally has other critical functions, specifically regarding regulating, monitoring, and setting national fiscal policy. Because these functions are also lacking, the remittance companies operate in a virtual vacuum. This vacuum has fostered an environment of intense competition that has prevented price fixing from occurring and monopolies from being formed. This dynamic, in conjunction with the pre-existing notions of ethnic affinity or cultural obligations, has resulted in perpetually improving services, reducing prices, and an expanding customer base.³⁷

From the outside, it seems that circumnavigating risk and danger in Somalia's business landscape would be an impossible endeavor. However, this chapter has argued that if the business person is familiar with their society and locale, the answer to these dangers is rather straightforward. Physical security, while still important, is clearly the secondary measure after establishing reliable and trustworthy social networks, and using them to aggregate as well as convey information about one's business endeavors. While businessmen still find themselves obligated to pay bribes or fines to certain actors for "services" such as protection, transit, and so on, the key is that due to the complex and inter-connected relationships of trust found between the myriad actors in this system, it will rarely stray from what has been agreed upon. The next chapter will look at how some diaspora entrepreneur endeavors have manifested themselves on the ground in Somalia.

³⁷ Omer, Abdusalam, and Gina El Koury. "Regulation and Supervision in a Vacuum: The Story of the Somali Remittance Sector." In *Remittances: Development Impact and Future Prospects*, eds. Samuel Maimbo and Dilip Ratha, 226-243. Washington, DC, 2005. The World Bank. 233.

CHAPTER 6: DIASPORA-DRIVEN DEVELOPMENT: THE CASE OF THE TELECOMMUNICATIONS SECTOR AND LOOKING FORWARD

Despite lacking an effective central government for almost 20 years and the harsh conditions associated with such a power vacuum, Somalia's private sector has demonstrated an incredible capacity to adapt and in some circumstances, flourish. Private enterprises, often spearheaded by diaspora entrepreneurs, have been able to make use of their own experience and resources while operating within Somalia's networks of trust in what is otherwise a political vacuum. This relationship, beginning with telecommunications and the informal finance sector, has led to easier transactions and thus opened the door for other creative business opportunities as well as improving the scope of remittance "lifelines" back home.

At the microeconomic level, remittances sent by the Somali diaspora to impoverished family members back home go towards food, shelter, and clothing. In addition to paying for these critical necessities, it has also been shown that remittances and investments played a major role in local investment, especially in sectors including small business startups or real estate. On the macroeconomic level, diaspora remittances have contributed directly to Somalia's booming telecommunications sector, informal finance sector, and other privately provided services such as electricity, transport, and provision of water. Secondary investment activities that are

more socially-oriented such as education and health care have also begun to manifest themselves in recent years.

This chapter will initially examine diaspora-driven development in the telecommunications sector. Unlike the informal finance sector, telecommunications requires a degree of planning and infrastructure, and in turn, a higher level of investment. As detailed in previous chapters, the spread of informal finance houses has been driven substantially by expansion of Somalia's telecommunications capacity. Today, the informal system's capacity to be uninhibited by physical or political boundaries has essentially been determined by the technologies utilized. Because telecommunications technologies and the nature of Somalia's informal economic functions are inherently intertwined, forays into implementing these technologies have represented some of the commercial diaspora's earliest and most important endeavors back in their homeland. As mentioned earlier, telecommunications technology reduces transaction costs across the board. In Somalia, these benefits are noticeable across all spectrums of society, whether the beneficiary is a diaspora entrepreneur calling home to investigate a potential project, a market broker intermediary negotiating between parties across town or across the region, or even for the great many Somalis who still adhere to traditional lifestyles as pastoralists in the border regions or as fishermen on the northern coast. For example, a Somali fisherman is now able to call his various, often geographically far-flung prospective buyers and ascertain the best prices for his valuable yet extremely perishable haul before spending hours simply getting to each buyer's locale. It is arguable that the benefits of

telecommunications development in Somalia facilitate easier transitions into other modes of development. As such, telecommunications makes sense as the starting point in an analysis of diaspora-drive development on the ground in Somalia. Subsequent sections will look at the other forms of diaspora-driven development that have manifested themselves on the ground in Somalia.

6.1 TELECOMMUNICATIONS: THE FIRST SUCCESS STORY

Cell phones were first introduced to Somalia in 1995. Today, cell phone towers dot the landscape, densely packed in Mogadishu, Hargeisa, and the other urban centers in Somalia. Coverage is everywhere, and service is rapid; a landline telephone connection can be hooked up in less than a day, and cell phone service is provided instantly after the initial payment. Service costs around ten US dollars each month, with unlimited local calling and very reasonable international rates.¹ Sound quality is pristine, even when calling from rural villages.² Somalia's remarkable telecommunications development was driven almost solely by diaspora businessmen amidst the opportunity provided by the power vacuum in the early to mid 1990s.

The window was opened following the government's collapse, and the first telecommunications operators, many of whom were residing in the United States at the

¹ Winter, Joseph. "Telecoms thriving in lawless Somalia" *BBC News*, 2004. Available from <http://news.bbc.co.uk/2/hi/africa/4020259.stm>. Internet; accessed 20 February 2009.

² Sites, Kevin. *In the Hot Zone: One Man, One Year, Twenty Wars*. New York, NY: Harper Collins Publishers, 2007. 60.

time, quickly moved in with whatever equipment they had available. Many of the early endeavors into telecommunications within Somalia were patched together with cheap and aging equipment, adapting it to best fit their needs. Somalis that had worked for telecommunications firms in the United States brought telephone equipment and satellite dishes to Somalia, and began setting up phone booths in some of Somalia's smaller towns.³ Early telecommunications access to rural Somali villages was often provided with a combination of radio and telephone; the speaker and receiver of a hardwired telephone in Mogadishu would be rigged to the speaker and receiver of a shortwave radio connected to the remote village in question.⁴ The advent of various avenues of telecommunications certainly facilitated an expansion of the scope of business development endeavors in Somalia. Immediately following the exit of US and UN assets in the mid-1990s, trade and economic activity was largely facilitated by VHF radios, CB radios, and handheld walkie-talkies. The networks established with this more limited technological framework provided a base on which to expand from once other technologies, notably the internet and e-mail, became more accessible.⁵

With these piecemeal networks, business began in earnest. The ongoing lack of regulation in conjunction with diaspora investments and inroads has gone on to boost telecommunications technology and services in Somalia to among the best in the

³ Dowden, Richard. *Africa: Altered States, Ordinary Miracles*. London, UK: Portobello Books, 2008. 115.

⁴ Cockburn, Andrew. "Somalia." *National Geographic Magazine Online Extra*. 2002. Available from <http://ngm.nationalgeographic.com/ngm/0207/feature3/fulltext.html>. Internet; accessed 10 March 2009.

⁵ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 147.

world. Today, Somalia boasts around ten established telecommunications service providers, many of whom are working in conjunction with Western service providers such as American telecom giants ATT⁶ and Sprint or Norwegian sector stalwart Telenor⁷ in order to provide subscribers with the latest services and technologies.

The process for procuring the sophisticated equipment required to provide telecommunications service demonstrates dependence on Somalis abroad as well as both the informal and formal finance sectors. Most of the telecommunications companies operating in Somalia are headquartered outside of the region, usually in Dubai or Abu Dhabi. The Emirates are a hub of business and technology trading, and have an extensive formal banking sector along as well as numerous *Hawalaad* outlets. Somali businessmen are able to transfer dollars via Somalia to the companies that produce the needed goods. Despite the lack of a formal banking system, Somalia's telecommunications operators have been able to secure equipment deals with very large technology firms, including the United States firm Tecom as well as the AirNet and Huawei Chinese telecommunications equipment firms. SAF Tehnika, a Latvian telecommunications equipment supplier that has sold hardware to the Somalia Telecom Group, has described their Somali clients as extremely ambitious yet honest about their situation. Most equipment is shipped to Dubai. There are three main paths for getting the hardware from the Gulf into Somalia. Most telecommunications equipment is then either flown into Hargeisa or Mogadishu via one of Somalia's

⁶ SomaliaWatch.org. "Surprise Success Story: Somalia's Telecommunications Sector." Somalia Watch News. 2007. Available from <http://www.somaliawatch.org/archivedec01/020111101.htm>. Internet; accessed 10 March 2009.

⁷ Nenova, Tatiana, and Tim Harford. "Anarchy and Investion: How Does Somalia's Private Sector Cope without Government? ." *The World Bank Group Public Policy for the Private Sector*, no. 280 (2004): 2.

private regional airlines headquartered outside the area, or into Djibouti where it is later transferred via cargo convoy.⁸ Successful businessmen have also been able to construct their own smaller airstrips or buy use of one of the numerous small, ungoverned harbors along Somalia's coast in order to import their equipment.⁹ Distribution on the ground is generally quick and straightforward; first a security detail comprised of local power is hired, and then cell phone towers are put up and phone lines are laid.

The effects of this form of development are as equally apparent in Mogadishu or Hargeisa as it is in some of Somalia's more rural regions. For example, the Somali border-trading town of Garissa, traditionally dependent on livestock trading, has become a hub for informal currency exchange agents and various telecommunications centers, including low-cost, private access to telephones, internet access, and fax machines. The success of these institutions in the oft-dire conditions in the Somali border regions is evident; top-flight computers and telecommunications technology being used in clean, modern offices adorned with fresh paint and framed pictures. This is often a stunning contrast when compared to other shops or businesses in the same area.

According to statistics from the World Cellular Information Service and the International Telecommunications Union, the number of cellular phone users in

⁸ Akam, Simon. "Mobile success emerges amid the mayhem." *The Financial Times*. 2006. Available from http://us.ft.com/ftgateway/superpage.ft?news_id=fto100320061137399483&page=2. Internet; accessed 10 March 2009.

⁹ Winter, Joseph. "Telecoms thriving in lawless Somalia" *BBC News*. 2004. Available from <http://news.bbc.co.uk/2/hi/africa/4020259.stm>. Internet; accessed 20 February 2009.

Somalia has exploded to over 650,000 in 2007.¹⁰ This figure, coupled with the lowest international calling rates in the entire continent of Africa, highlight the globalized nature of what is still essentially a community-based society. The following subsections will detail some of the more successful telecommunications service providing companies in Somalia, with three goals in mind. First, the intrinsic role of the diaspora entrepreneur will be highlighted in practical terms. Second, the gradual evolution and professionalization of Somalia's telecommunications companies evidences a potential starting point to the notion of a gradual "formalization" of Somalia's largely informal business and finance sectors. Finally, discussion of these different companies will draw a connection to the idea that telecommunications development has and is serving as a crucial "first step" that has facilitated a number of other avenues in development in Somalia.

6.1.1 SOMALIA TELECOM GROUP

An excellent example of diaspora-driven telecommunications development in Somalia can be found in the Somali Telecom Group. The company was founded in Rockville, Maryland in the United States in 1993. To this day, founders Abdirazak Osman, Edmund Resor, Adidaziz Dualeh, and Luis George claim to have created Somalia's first-ever telecommunications service provider.¹¹ The men, with varying levels of Western education and backgrounds in business or telecommunications, invested substantial amounts of money into erecting telecommunications infrastructure in

¹⁰ Information taken from the ICT Eye Statistics Tool, available at <http://www.itu.int/ITU-D/icteye/DisplayCountry.aspx?code=SOM>.

¹¹ "About the Somali Telecom Group." [SomaliTelecomGroup.com](http://www.somalitelecomgroup.com). Available from <http://www.somalitelecomgroup.com/index.php>. Internet; accessed 14 February 2009.

Somalia via the *Hawalaad* system. In the unregulated environs of Somalia, securing real estate to build cell phone towers was relatively easy and inexpensive; Somalis with clan or familial links to the founders were paid nominal sums to essentially place cell phone towers in their backyards. This money was cleared through the same channels as the "lifeline" remittances that one might presume the company's founders were already sending back to many of those same people at home.

In the budding years of the Somali Telecom Group, the primary services offered included basic domestic and international telephone and faxing services. Over the past 17 years, the group has evolved quickly as new technology became available, offering cellular phone services and high-speed internet connections before many centrally-governed states in Africa were able to afford their populations similar levels of access. The company has remained highly profitable despite the numerous obstacles in its path. According to Guled Abdikadir Hassan, Somalia Telecom Group's Manager of Development, around 30 percent of the company's expenses go towards security. Hassan also indicated that his company often finds itself compromising between good business planning and submitting to local political powers; a local warlord or militiaman may be put in a supervisory or managerial role in a new STG endeavor despite the fact that they have numerous more qualified staff on hand.¹² Mustafa Sheikh, a business director with the Somalia Telecom Group who was educated at

¹² Akam, Simon. "Mobile success emerges amid the mayhem." *The Financial Times*. 2006. Available from http://us.ft.com/ftgateway/superpage.ft?news_id=fto100320061137399483&page=2. Internet; accessed 10 March 2009.

Berkeley University in California, has praised the possibilities afforded by the flexibility that his company has been able to exhibit in pursuing these ends.¹³

The group began by offering telecommunications services in Hargeisa, which had become the capital of Somaliland. Services in Mogadishu began in earnest in 1998, after the installation of a small, budget-friendly network of telecommunications infrastructure. The company currently has offices scattered across Somalia, but is headquartered in Dubai. Company-client as well as interdepartmental finances are now handled in-house, but in the earlier years of the Somali Telecom Group's existence they were funneled via the informal channels between Mogadishu and Dubai.

The Somalia Telecom Group has expanded and branched out to include a number of subsidiaries in telecommunications as well as other related sectors. As of 2007, the Somali Telecom Group and its affiliates were present in virtually all urbanized localities in Somalia as well as a number of more rural regions. Netco Somalia is another outstanding example of diaspora entrepreneurship as an affiliate of the Somalia Telecom Group. Netco Somalia provides telecommunications services in the semi-autonomous Puntland region of Somalia. Netco Somalia was also founded by a diaspora entrepreneur; Ismael Haji Abdi, an MBA graduate from Wisconsin University in the United States. Today, Netco Somalia is the largest telecommunications operator in Puntland, and one of the largest in Somalia as a whole. Netco Somalia reportedly has over 750,000 service subscribers. The company

¹³ Ibid.

supplies basic landline telephony as well as cellular phones and high-speed internet services. Haji Abdi has also stated that his company's next big endeavor will be to privately provide electricity to the residents of Puntland, with a plan to do just that over the next five years. This expanded business endeavor foreshadows the next sections of this chapter; namely the secondary and tertiary business endeavors being undertaken in Somalia following the successes of informal finance and telecommunications.

6.1.2 TELCOM SOMALILAND & TELCOM SOMALIA

Telcom Somaliland is one of the most successful telecommunications service provider in Somaliland, and was among the first large-scale privately owned firms to operate in the territory. Telcom Somaliland also highlights the transnational nature of business in Somalia; while the company is technically headquartered in Hargeisa, much of its business planning, accounting, and regulatory body relations take place in its satellite offices in Dubai and London.¹⁴ Telcom adheres to financial regulations laid out in both the Emirates and in the United Kingdom, despite the fact that it operates exclusively in a virtually lawless region. The company currently formally employs almost 500 employees, but is part of a conglomerate that also includes Telcom Somalia which employs around 1500.¹⁵ Virtually all employees are Somali, many of whom moved out of Somalia and became members of the diaspora after acquiring their jobs with Telcom Somalia. The Telcom Somaliland and Telcom Somalia

¹⁴ "About Telcom Somaliland." Welcome to Telcom Somaliland Official Website. Available from <http://www.telcomsomaliland.com/about.htm>. Internet; accessed 14 February 2009.

¹⁵ "Telcom Somalia About Us: Profile." Telcom Somalia: Hearty Welcome!. Available from <http://www.telcom-somalia.com/>. Internet; accessed 14 February 2009.

company presidents were educated in the West, as were several of the companies' higher level executives.

6.1.3 SOMAFONE

Somafone is the final mini-case study to be addressed in this section, not because of the company's diaspora ties or the expansion of their business into other sectors, but because of the degree of formality the company has adopted despite being headquartered in Mogadishu. Somafone business policies perhaps represent one of the more poignant indicators along the continuum of the evolution from informal to formal that has been an undertone throughout this study. Somafone is another one of Somalia's leading cellular service providers, and was founded as a corporate subsidiary of Dubai's Internet City. Somafone is headquartered in Mogadishu but offers services that one would expect in Dubai. The company adheres to international standards and regulations for telecommunications, a practice that has been rare in Somalia's telecom boom over the past decade. The company relies on an interesting business model that hybridizes international business standards with a deep local information network, allowing the company to forge a path through Somalia's murky political environments, bypass occasional conflicts or outbreaks of violence, and negotiate profitable business deals with local powers with relatively little in the way of losses, both in a corporate financial sense but also in terms of services for their customers. Somafone's customer-service model is based on those found in other parts of the world with extensive telecommunications development, with 24 hour customer service representation available, credit with paper or electronic billing, and simple,

printed refund or exchange policies. The formal customer service and billing plans give Somafone a degree of professionalism not likely to be found in other sectors in Somalia, and could represent a step towards a more cohesive, formal, and perhaps regulated market.

The contrast between the nature of Somali mobile phone services in 1995 and those of Somafone or any of the other more polished Somali telecommunications companies in 2009 is stark, and demonstrates the possibilities for rapid development in Somalia in economic, technological, and formality terms.

6.2 TELECOMMUNICATIONS AS A STEP TOWARDS BROADER DEVELOPMENT

The limited statistics available on the proliferation of telecommunications access in Somalia are still telling. The number of telephones per one thousand people increased over 700 percent between 1990 and 2005, according to the United Nations' International Telecommunications Union agency.¹⁶ While the telecommunications sector has been growing at an astounding rate across the globe over the past decade, Somalia still remains an outlier in almost every measured telecommunications statistical category. From here, telecommunications development can be viewed as a primer for a myriad of other forms of investment. For example, the combined effects of informal finance sector development and telecommunications development,

¹⁶ Information taken from the ICT Eye Statistics Tool, available at <http://www.itu.int/ITU-D/icteye/DisplayCountry.aspx?code=SOM>.

manifesting themselves in things like wire transfers, which despite being difficult to measure have clearly served as a catalyst for a whole range of other economic activities.

The success of telecommunications development under the context of de facto deregulation has stimulated growth in a number of other sectors. The initial significant private investments, mostly stemming from the diaspora in one way or another, came in the sectors of informal money transfer services and telecommunications. Investment into other privately provided goods and services such as air transport, hotels, and the production of foodstuffs and beverages have also come about. Even more interesting is the provision of services with a much higher potential for private to public benefit spillover, such as electricity and potable water. Along this same evolution, it should be noted that increasing private entrepreneurial attention has been paid towards less obviously profitable sectors such as education and health.¹⁷ The gradual increase of attention paid to investing in goods with higher levels of potential benefit spillover from private to public represents one of the most important manners that the private sector has been able to manifest itself in a way that fills some of the vacuum left by a lack of central government.

¹⁷ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 140.

6.3 BRANCHING OUT IN BUSINESS AND DEVELOPMENT

With the implementation of effective telecommunications services and the steadfast *Hawalaad* system, Somalia's diaspora is increasingly investing, either directly or indirectly, in myriad other sectors. Many of these second-stage investment projects have facilitated improved quality of life for Somali residents, whether through the provision of electricity, potable water, or other services. Urban and rural Somalis have both been able to take advantage of these services to some extent, and definitely more so than in the years following the fall of Barre.

Abdi Rizak Osman is a Somali entrepreneur who began supplying electricity via imported generators in the central Somali town of Galcaio, near the border with Ethiopia. It should be noted that Osman's original businesses were rooted in mobile phones and money transfer services. In 2002, Osman's generators provided electricity for homes for a fee, but also provided electricity for the town's hospital and some street lights without charge.¹⁸ While this spirit of community service is not necessarily rare in Somalia, it should be noted that Galcaio is relatively ethnically homogenous and devoid of clan or sub-clan tension.

Abdul Dini is a Somali businessman who has transformed substantial remittance investments into a number of profitable businesses. Besides being a partner to one of Somalia's landline telephony groups, he had diversified his investments into other

¹⁸ Cockburn, Andrew. "Somalia." *National Geographic Magazine Online Extra*. 2002. Available from <http://ngm.nationalgeographic.com/ngm/0207/feature3/fulltext.html>. Internet; accessed 10 March 2009.

business sectors including foodstuffs and construction. Among Dini's 2002 business portfolio were a plastics factory, a mineral water filtering and bottling plant, a pasta factory, and a bakery.¹⁹ Numerous other private services have sprouted up in various parts of Somalia, including those in the way of ground transport, mechanical services, and even garbage collection.²⁰

Perhaps the most iconic example of diaspora-driven investment in Somalia following government failure came in the summer of 2004, when a Coca-Cola bottling plant opened in Merka, just south of Mogadishu. The factory was opened by Somalia's United Bottling Company president Abdi Risak Isse, a Somali businessman with substantial support from the Somali diaspora.²¹ Sharif Ahmad Ba'alawi, the previously mentioned Chairman of the Somali Business Council in Dubai also owns a stake in the factory. The factory has been largely successful, and employs more than 100 Somalis in the town.

Air transport into and throughout Somalia has been another focal point of diaspora investments. The sector has been largely successful; a number of regional airlines serve Mogadishu, Hargeisa, Borama, and the northern port city of Bossaso. Star African Airlines, based out of Dubai, a largely diaspora-driven company in its earlier phases, has become one of the largest Somali companies outside of the financial

¹⁹ Ibid.

²⁰ Fisher, Ian. "Somali Businesses Stunted by Too-Free Enterprise." *Mogadishu Journal*, 2000. Available from <http://www.globalpolicy.org/nations/somalia.htm>. Internet; accessed 7 February 2009.

²¹ Ferrett, Grant. "Coca-Cola makes Somalia Return" *BBC News*, 6 July 2004. Available from <http://news.bbc.co.uk/2/hi/africa/3865595.stm>. Internet; accessed 11 January 2009.

services sector. For a small private airline, Star African Airlines boasts substantial regional operations, with regular domestic flights across Somalia, regular flights to and from the United Arab Emirates, and intermittent charter flights to North Africa and Europe. Jubba Airways, another Somali airline headquartered in Dubai, is a similar story. It was founded in 1998 by a group of savvy Somali diaspora entrepreneurs who had been residing in Calgary, Canada. The men utilized their extensive connections with local businessmen on the ground, and were able to get the airline up and running in short order despite the instability of the situation. Today, Jubba has regular flights connecting Mogadishu, Hargeisa, and Bosaso in Somalia with destinations in Kenya, Djibouti, Saudi Arabia, Yemen, and the United Arab Emirates.²²

Other interesting examples of this broadening scope of diaspora involvement include the relatively newly-constructed Ambassador Hotel in Hargeisa, the rebuilt tuna canning factory in Las Qoray, and the Amoud University in Borama. Another fascinating example is the Somali diaspora-based association, SomScan and UK Cooperative Associations, with members in different European countries, which pooled resources to build a new settlement of 330 houses in the city of Burco, Somaliland.²³ This is reminiscent of the community foundation development efforts in home countries carried out by Latin American diaspora members residing in the

²²"About Us: Jubba Airways." [JubbaAirways.com](http://www.jubba-airways.com/about.asp). Available from <http://www.jubba-airways.com/about.asp> . Internet; accessed 22 February 2009.

²³ Kleist, Naja. "Somali-Scandinavian Dreaming: Visions of Home and Return in Somscan and UK Cooperative Associations." *Sussex Centre for Migration Research*, Conference Paper, (2004).

US. This model of diaspora philanthropy development has been largely successful and praised for its innovation.²⁴

Unsurprisingly, it seems that many of these services initially provided by diaspora investment and the private sector are more widely available than even before the collapse of the government. New privately-funded health clinics and primary schools began popping up in earnest as early as 1997. While the quality of these facilities is poor, the fact that they exist is telling. A recently opened mental hospital in Somaliland has been faulted for antiquated and oppressive treatment regimens. Despite the valid criticism, some Somaliland officials make the point in noting that at least the facility exists and is accessible, something that certain other centrally-governed states cannot boast.²⁵ Major problems clearly remain in the nascent Somali health sector. These include a disturbing lack of professionals and inadequate resources, and problems stemming from this are further compounded by the lack of central government.

The emergence of private health clinics, pharmacies, and hospitals is notable for several reasons. These facilities are largely funded by diaspora investments.

²⁴ Orozco, Manuel. *"Diasporas, Philanthropy and Hometown Associations: The Central American Experience."* Paper prepared for the Global Equity Initiative Conference, Harvard University May 2006.

²⁵ Gettleman, Jeffrey, "The Other Somalia: An Island of Stability in a Sea of Armed Chaos," New York Times, 7 March 2007. Accessed on 6 January, 2008 from http://www.nytimes.com/2007/03/07/world/africa/07somaliland.html?_r=1&scp=1&sq=%22The%20Other%20Somalia%22&st=cse.

Interestingly enough, diaspora support also goes towards both emergency as well as common medical treatment in these same facilities. The focus of Somali health care has remained largely curative, with not as much investment into primary health care.²⁶ Expenditure for sanitation or preventative health care is virtually nonexistent. Access to these health services in Somalia are generally reliant on one or more of the following; remittance funding, clan affiliation, and conventional humanitarian aid afforded by non-governmental organizations. The former is perhaps most interesting, in which remittances fund health services within clinics originally built on diaspora investments. The Somali health care sector seems bound to this inefficient, semi-charitable model for some time to come. However, a comparison of some general welfare statistics in the years leading up to the collapse of the state contrasted with the same figures gathered in the mid-2000s is telling. Prior to the fall of Barre, the percentage of population with access to any sort of health facility was 28 percent. In 2003 that figure jumped up to almost 55 percent, according to the UNDP.²⁷

It is unsurprising that money transfer and telecommunications enterprises remain the largest companies operating in Somalia. After 2001, the Hargeisa-based Dahabshiil *Hawalaad* firm became the largest of all Somali money transfer companies following the US closure of the then-giant Al Barakat remittance company for alleged ties to terrorism. The adaptability of both Somali remitters as well as remittance companies

²⁶ Kent, Randolph, Karin von Hippel, and Mark Bradbury. "Social Facilitation, Development and the Diaspora: Support for Sustainable Health Services in Somalia." London, UK: The International Policy Institute at King's College. 31.

²⁷ World Bank and United Nations Development Program. Socio-Economic Survey 2002-Somalia. Washington, DC: UNDP and World Bank, 2003.

was on display in the months following Al Barakat's closure, as there was virtually no drop-off in remittance and transfer services. Over the long term, it was clear that the market was so competitive that the vacuum was filled immediately by other *Hawalaad* groups.

6.4 ADDRESSING POLITICAL RAMIFICATIONS

The discussion on the relationship between economic development and political stability in Somalia would quickly fill several volumes. While this study seeks solely to explore the social constructs that have facilitated development in a territory without a central government, it should be remembered that the situation in Somalia has not benefited all Somalis equally. Some limited studies have gone as far as to indicate that economic marginalization and political exclusion in Somalia have been catalyzed by "external" factors, focusing primarily on the sporadic and ill-planned interventions taken on by the international community, but also potentially by unsavory influences in the diaspora.²⁸ The recent links drawn between the Somali diaspora in Canada and Somali pirates operating in the Gulf of Aden further illustrates the potentially nefarious objectives of some within the diaspora.

However, these detrimental activities may also prod certain other segments of Somali society towards acceptances of a government. That is reflected in the desires of many

²⁸ Webersik, Christian. "Differences That Matter: The Struggle of the Marginalized in Somalia." *Africa: Journal of the International African Institute*, no. 74 (2004): 529.

successful businessmen to seek a return to some form of government, as evidenced by their support for the newly created Transitional National Government, before they become victim to the unique situation that originally facilitated their success.²⁹ There is no question that at some level, certain Somali businessmen would like to see a central government in power that would reduce their overhead, particularly in terms of security. There is also no question that many of those same businessmen have reaped benefits in the power vacuum of the past two decades, and would quickly become inhibiting towards efforts for government if they were not wholly agreeable to the proposed policies.³⁰

However, the case of Somaliland provides a positive example of the potential relationship between diaspora and political stability in a burgeoning system. Diaspora presence and investments have been recognized by the fledgling government of Somaliland as not only a valuable influx of resources, but also a major contributor to legitimacy of governance. The government in Hargeisa has offered substantial tax advantages on certain imports: particularly those used for development or infrastructure construction, and has allowed many within the diaspora to bypass several levels of bureaucracy if they are looking to invest in Somaliland real estate.³¹ Somalilanders in the diaspora are also regularly encouraged to visit home, via a waiver of airport taxes from the fledgling government, in order to facilitate some of the more intangible asset transfers, namely of outside knowledge and new ideas.

²⁹ Le Sage, Andrew. "Somalia: Sovereign Disguise for a Mogadishu Mafia." *Review of African Political Economy*, no. 29 (2002): 134.

³⁰ Ibid.

³¹ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 177.

6.5 THE FUTURE OF DEVELOPMENT IN SOMALIA?

The future of development in Somalia, with or without a functioning government, is a frequently discussed subject among would-be entrepreneurs. In a further example of the compression of time and space through technology, many Somalis abroad and at home are increasingly participating in internet message boards to share ideas and opinions, often on future business prospects or endeavors in their home country. Their ideas along with a quick survey of Somalia's resources indicate some likely avenues for development in the future, including tourism, fishing, and marine shipping facilities. In the distant future, it is possible that private enterprise may undertake even more complex endeavors, including tapping into Somalia's believed energy resources or starting up large scale and technologically advanced privatized mining or quarrying firms.

This hypothetical discussion of Somalia's future business endeavors merits a brief aside about the gradual evolution to more accessible services alluded to above. While the list of potential future business prospects in the preceding paragraph represent bear little direct implications for a sector like education, broadening and strengthening in other sectors may represent the only way to open the door for such development. This could be through either business or philanthropy, for a sector such as education that is more public-benefitting. This argument has been alluded to in prior sections of this paper, and harbors more potential than some other approaches for reconstructing

education in Somalia, notably the failed model of foreign aid agencies conducting education "interventions" espoused by Ali Abdi in 1998.³²

Somaliland has seen the foundations of a tourism sector begin to appear, with the relatively newly constructed five-star Ambassador Hotel in Hargeisa serving as perhaps the most iconic indicator of a potentially profitable tourism sector. Several small hostels for independent travelers have also sprouted up in recent years, a testament to the region's relative stability.

One of Somalia's traditional enterprises is fishing, however the industry suffered mightily under the Barre government, and unlike certain other sectors it has not flourished in the absence of a state. Today, Somali waters are one of the few on the planet that have been described as under-fished. Estimates have claimed that Somalia is capable of producing 300,000 tons of fish annually, and while current statistics are difficult to come by, it is certain that fishermen are pulling in only a fraction of the water's capacity.³³ Expansion of private fishing operations is a long ways off, particularly with the problems surrounding piracy in Somali waters, but perhaps represents a future step of economic development along the path forged by the informal financial services and telecommunications endeavors.

³² Abdi, Ali. "Education in Somalia: History, Destruction, and Calls for Reconstruction." *Comparative Education*, no. 34 (1998): 338.

³³ MacCallum, Spencer. "Economic Development." In *The Law of the Somalis: A Stable Foundation for Economic Development in the Horn of Africa*. Ed. Michael Van Notten, 145-171. Trenton, NJ, 2005. The Red Sea Press Incorporated. 153.

Geographically, Somalia's largely underdeveloped 1600 miles of coastline affords a myriad of economic opportunities. Investment in port facilities would also serve another major economic purpose other than improved fishing revenue. As noted by Spencer McCallum in Michael van Notten's posthumous 2004 release *The Law of the Somalis*, Ethiopia has been virtually landlocked since Eritrea's independence and has been forced to rely on the poorly managed and difficult-to-access port in Djibouti. According to MacCallum, African countries import an average of 2,000 pounds by sea per year per capita, while Ethiopia is currently only able to import around 20 pounds per person per year by sea.³⁴ Improved port facilities and road access in Somalia would certainly help address this potentially 50 million ton annual shortfall in Ethiopian import demands. Improved ocean shipping access would most likely be a boon to the traditional pastoralists in Somalia as well, as many of their principal buyers are in the Arabian Gulf.

Minerals and energy resources could represent another source of income in some future iteration of the territory of Somalia. Gold, emeralds, and coal, present in reasonable quantities in Somalia, are often mined by hand. It has been speculated that Somalia has rich deposits of copper, zinc, lead, talcum, rubies, and even uranium that are largely untouched. There is evidence indicating the presence of energy resources as well. Natural gas and oil were both believed to be present back when foreign energy firms were inspecting concessions prior to the collapse of the government.

³⁴ MacCallum, Spencer. "Economic Development." In *The Law of the Somalis: A Stable Foundation for Economic Development in the Horn of Africa*. Ed. Michael Van Notten, 145-171. Trenton, NJ, 2005. The Red Sea Press Incorporated. 156.

Tapping into hard resources such as oil, gas, and minerals will require a far higher degree of investment, which makes steadfast political stability a requisite. Time will tell whether these particular avenues are explored.

6.6 A Closing Note on Access and Diaspora-Driven Development

It is evident that the majority of Somalis today have better access to financial and telecommunications services than they ever did under the rule of government. The argument that many Somalis also now have improved access to a number of other services such as water or electricity than they did in the years immediately following the collapse of the government can also be made. This radiating effect of improved access in sectors in which diaspora entrepreneurs have become involved must be explored, encouraged, and amplified.

While the evolution of technology over the past fifteen years has played a key role in the most drastic economic upswings within certain sectors in Somalia, the driving catalyst for these developments big or small has originated from the diaspora. It is important to see the shift in how that money is being spent within the framework of diaspora-driven development in Somali. While remittance recipients in Somalia were historically using the funds solely for consumption and survival-based spending, there was a gradual shift during which remittances went increasingly towards fueling investment in certain sectors, such as telecommunications, as well as small business

and real estate. The scope of diaspora-driven development seems to be continuing its expansion into sectors that distinctly blur the lines between business and social development. These avenues of development, such as health or education, could prove to be the fastest and most effective methods for addressing many deficiencies caused by the absence of a state. It is important not only to recognize the obstacles overcome by the Somali commercial sector, but to see the complexity of the system, the social networks abroad and at home, and their tenacity, enthusiasm, and inductive problem solving in facing the most challenging hardships. It is these intangibles that have facilitated varying degrees of success within an environment that, to an external observer, would seem to preclude survival, much less any success.

The following chapter will conclude this paper by synthesizing the various previous discussions and highlighting the notion that diaspora-driven development has and will serve a most critical role along the path towards political stability and sustainable development in Somalia. Broad policy recommendations will be made for both nations harboring substantial Somali diaspora populations as well as international organizations interested in forging development in the region.

CHAPTER 6: CONCLUSIONS

The collapse of the state created a dangerous vacuum in Somalia, where initially lawlessness ruled and in which security and basic services were virtually nonexistent. However, the lack of government pushed people to rely on networks outside of the traditional state framework for their survival and livelihoods. While much of Somalia today remains essentially stateless, it is clearly not wholly anarchic. Repeated efforts on behalf of the international community to resuscitate a formal central government have faltered or failed outright, but the Somali people both at home and abroad have developed methods to cope with the ongoing status of uncertainty and instability. The rise of a unique informal economy has facilitated a constant flow of diaspora-born revenue. This revenue came as remittances helping families in Somalia survive, as well as larger diaspora investments that have managed to pay some notable economic dividends. While many Somalis in the diaspora endeavor to one day return to a peaceful Somalia, this nostalgic desire is tempered by the knowledge that this goal is unreachable without substantial change. However, it is evident that the precursors to this substantial change could be occurring right now.

We have witnessed the opening of a number of economic avenues into an otherwise un-accessible market. Vacancy of governance in conjunction with the overarching presence of certain tight societal and cultural bonds has coalesced in Somalia to form some semblance of a stable mechanism. Somalia's private sector experience, driven largely by a

far-reaching and motivated diaspora, suggests that it may be easier than is commonly thought for certain services, evidenced particularly in finance and telecommunications, to function where government is extremely weak or absent. Can these unique avenues for economic development open the door for more politically-oriented development? The evolution of the Somali diaspora's commercial involvement at home indicates that the door may already be opening. Extensive commercial ties between the diaspora and commercial sector have resulted in a vested interest on behalf of those diaspora entrepreneurs to create and maintain a degree of order. The territory of Somaliland has been able to largely bypass much of the tensions and conflict that have enveloped other parts of the region in recent years, perhaps due in large part to a less incendiary mixture of clan and sub-clans residing there, but also likely related to that territory's engagement of its diaspora initially at the commercial level, then at the political level.

In terms of on-the-ground economic activities, trust and bonds within and between clans and families has become the vital pillar on which many peoples' livelihood is based under conditions of perpetual conflict and instability. These bonds, which begin at the most basic of social levels, have broadened and extended upwards with the wide dispersion of the diaspora and the diaspora's subsequent desires to get involved at home. These bonds directly result in reducing risk and cutting down on transaction costs between economic actors operating in different segments and sectors of the economy, which in results in increasingly diverse working relationships. The nature of these relationships is akin to the types of relationships needed to forge any sort of governance among different groups of people.

The fierce loyalty of Somalis to their families and clans has been the catalyst for much of the violence and destabilization of traditional political systems in place in the country over the past decades, but it has also largely facilitated interesting and effective methods of survival and sometimes, a degree of comparative prosperity. Somali enclaves across the globe have funneled remittances to family and business partners at home, in a sense creating a modern echo of how a nomadic society survived in Somalia when the family members were separated by a mere few kilometers, instead of thousands of kilometers as is the case today. The informal economy system functions in Somalia because of established trust that is not, unlike formal financial networks, founded on solely on financial transactions. Rather, it involves cultural obligations across multiple layers of the community. Increasingly, these obligations are manifesting themselves at the global level, as opposed to the village or community level.

The evolution of these social relations based on cultural and ethnic ties has widened the scope of Somalia's informal economy from remittance-based survival to legitimate business entrepreneurship. These social relations now serve as the vital bond between businesses and people, permeating every level of each market and particularly within the avenues of transnational remittances and investment. At the lower levels of economic scale, they are more heavily reliant on clan ties and affiliations, but at the more macroeconomic levels, patron-client relationships grow increasingly common. Stability, or rather trust, originating at the more microeconomic level of remittances has filtered up and emboldened entrepreneurs to explore avenues that may have been more of a fringe

area in both terms of business and acceptable societal linkages in the first years following the collapse of the state. From basic financial services to telecommunications and now to electricity, potable water, health services, or education, the private sector in Somalia is attenuating many of the dilemmas fomented by ineffective or nonexistent governance.

Interestingly enough, the average Somali today, entrepreneur or otherwise, still has little-to-no access to "formal" financial institutions but the informal outlets are incredibly prevalent and easily accessible. As was argued earlier in this paper, the most prominent, tangible aspect of this mechanism is the Hawalaad system. The Hawalaad has simultaneously served as a humanitarian relief conduit, development catalyst, and basic financial institution for people across Somalia as well as Somalis dispersed across the globe. Surprisingly, this lack of access to formal financial institutions within Somalia is remarkably similar to the lack of access present when a government existed. Somalia's merchants and entrepreneurs today are not only acclimated to this scenario, but many flourish under it. In addition, while Somalis still rely on the Hawalaad system's trust, simplicity, and high cost-effectiveness, remittance companies have rapidly begun to function much more like the banks that are so desperately needed inside their country. This raises a question in itself; how much of this failed system can be deemed as exceptionally irregular in an environment of ongoing instability such as Somalia? While the Somali case is certainly not enviable and neither should it be portrayed as a budding system rife with potential, residents have found means of coping successfully despite the political and economic turbulence that has pervaded for the better part of the past two decades.

The diaspora-driven expansion of financial services and telecommunications in Somalia has facilitated the diversifying economic growth. Both of the aforementioned sectors are also mutually beneficial: remittance companies now have better access to remote parts of the country and more reliable services because they have communications with all of their agents. The informal finance sector has also been a boon to local businessmen operating in all different sectors contending with insecurity. Without any public protection services, the actual transportation of funds would entail serious risks. The Hawalaad companies, however, allow businesspeople to move money throughout the country for purposes of trade by transferring funds through their complex computerized finance networks and not through physical means. This represents another secondary catalyst for increased diversification in investment in Somalia.

Some of the larger business ventures, such as telecommunications, often involve transnational partnerships, and diaspora business people have served as an important link to international markets. These 'mobile businessmen,' traveling between Somalia, Europe, and America, have facilitated whole new dimensions of development in the Somali economy.¹ Telecommunications infrastructure, health clinics, and roads, all highlight the capacity of diaspora entrepreneurialism through predominantly informal avenues to broaden in scope, evolve, and provide benefit for the public good. In doing so, there should be some correlated capacity for political stabilization within the framework of a thriving informal economy. While any endeavor towards a unified,

¹ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 177.

centralized state-driven political system in Somalia has been rife with hazards and unforeseen problems, the commercial diaspora's interpretations of Somali societal values such as cooperation and community stand a far better chance than the more localized construal. The fact that the commercial diaspora has been able to play such a substantial role in supplanting many basic functions of the state furthers this argument.

Many of the minimal essential elements of governance, while not met in full, have been addressed on one dimension or another in this system. Without a strong governing body that can legitimize itself to most of its citizens, these avenues of diaspora involvement can and should be a key point in aggregating political capital and legitimacy. Localized political "authorities" now range from the traditional clan elders to the militia leaders and strongmen to globalized Somali businessmen and traders. What has emerged is a fluid, localized society that relies on authority or direction from a very diverse yet intrinsically related group of actors. The diaspora entrepreneur has emerged as a unifier or at least as an actor with unifying potential, with diaspora assets and influence playing key roles in day-to-day activities for all parties in Somalia. If there is a sustained improvement in Somalia's security and political situation, it should be expected that many among the remitting diaspora population will seek a return to their homeland, converting those remittances into strictly domestically-sourced investments. While this dynamic would need improved regulation to sustain growth, it could also afford an additional degree to the government.

One of the main results of state failure in Somalia is that remittances have come to play the role of a sort of social safety net, preventing economic collapse and abating some of the hardships faced by Somalis in the face of the tribulations that have engulfed their homeland over the past two decades. It has also been demonstrated that within the context of Somalia, remittances are more important and more effective in aiding with pure survival as well as improving people's livelihoods with more success than other external intervention in the form of international aid or development efforts.

International interventions have been inconsistent and the transitional Somali government has yet to return much to the region. Public roads have not been constructed, public health clinics rarely built, and public schools are rarely established, especially outside of the urban areas. Governments interested in forging sustainable stability and lasting peace in Somalia should adopt advisory roles, relying on varied Somali inputs including as many facets of the diaspora population as possible. Somalia's informal financial transfer system is important to political stability, reconstruction, development, and improved livelihoods in the region. Additionally, the gradual professionalization and formalization of Somalia's financial sector should be extremely encouraging for host countries that have been suspicious or condemning of the system in recent years.

It is crucial to maintain and protect the diaspora's ability to remit money to family members as well as business partners at a low cost. Hawalaad firms must meet the financial and administrative regulations that are required in whichever country they

happen to operate in. However, regulating nations should be well-advised of the extraordinary role played by these firms and how they operate within Somalia. Regulating nations have a crucial responsibility in ensuring that their citizens and residents can financially support their families as well as their entrepreneurial endeavors back in Somalia, as long as they operate within the framework of the host country's law. Somali Hawalaad firms and diaspora organizations have already made contact with many regulating parties concerning their rights and desires to operate in full legality. In terms of regulating the Hawalaad system within the host country, it is remarkable how many record-keeping and administrative guidelines have already crept into the picture. From the remittance-senders' standpoint, the system remains fast and effective, and from the host country's standpoint, the system is legal and less worrisome.

Efforts should be made to encourage involvement by Somalia's global diaspora, as their societal and cultural links put them in a unique position to foster investment and development. It remains to be seen whether children of migrants continue to remit money to relatives they've never met in countries they've never been to. This represents one of the largest long-term reasons to foster as much Somali diaspora interaction with the home country as possible, as continued ties will likely equate to continued remittances.

It should be noted that a danger exists when the diaspora helps fund things like education and health for individuals and communities, political forces are less inclined to provide

these basic services, as they are less accountable for them.² Alleviating this worry requires steady-handed support from international organizations and flexibility on the behalf of host country governments. Those requisites are critical for continuing some of the positive directions taken during the evolution of Somalia's diaspora-homeland relationship, while cutting down on dependency as well as redundant investment. The diaspora's largely unplanned investments have resulted in some waste and duplicity³. This is not an unexpected occurrence in a wholly open and unregulated market, but an area in which development organizations could serve an immensely beneficial purpose in reducing its' frequency.

For international development organizations, the capabilities of certain commercial sectors in Somalia to flourish under the harshest circumstances should be a rallying point and source of guidance in other reconstruction efforts. It may indeed take less effort than commonly thought for the diaspora-driven development systems seen in telecommunications and finance to expand into other sectors of development.

International development organizations should ensure that diaspora avenues of involvement in Somalia continue to evolve. Organizations operating in a role peripheral to diaspora-relations may be able to encourage further developmental capacities in the financial sector, including perhaps the possibilities of savings, micro-finance plans, business loans, or even insurance. While contingent on a greater deal of stability than

² Lindley, Anna. "The Influence of Migration, Remittances and Diaspora Donations on Education in Somali Society" in "Remittances and Economic Development in Somalia: An Overview." Ed. Maimbo, Samuel. *The World Bank Social Development Papers: Conflict and Reconstruction*, no. 38 (2006): 9-17.

³ Bradbury, Mark. *African Issues: Becoming Somaliland*. Bloomington, Indiana: The International Africa Institute, 2008. 178.

currently present in the region, these endeavors could potentially interact directly with remittances, creating a multifaceted approach that would have positive consequences for households, communities, and the Somali economy on the whole.

One might hypothesize about the devastation caused by a similar breakdown, in severity and duration, of state and economic institutions in any another country. However, just those events in Somalia have resulted in the exact opposite, a bustling, evolving locally-styled yet globally-driven economy that has proven resilient for almost two decades. However, this optimism must still be tempered, and said without assuming that relative success in Somalia equates to a general notion of overall well-being.

Regardless of the successes or failures of any future iterations of governance in Somalia, there is no question that the societal bonds and capabilities of the informal economy call into question many basic assumptions about social reality in the territory. The notion of trust, in the Somali context, clearly cannot be replicated or encouraged to develop anywhere else on the planet. However, there is a lesson to learn from the capacity of the diaspora, both economically and politically, in the conflict, post-conflict, or perpetually-conflicted state. In this volatile environment, Somalis have relied on their extensive kinship ties and on members of their own groups to build social networks that continue to expand. This social strategy may be common in contemporary Somalia, but also increasingly characterizes informal trade elsewhere in the African continent and other conflict-ridden parts of the world. An appeal to non-state controlled parts of society

perhaps represents an avenue to explore other weak and failing states rife with ethnic violence. In some ways, the successes in Somalia demonstrate that much in the way of engendered distrust or animosity is dismissed if indirect relationships are forged. An informal economy directly facilitates these relationships.

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