



REPUBLIC OF TURKEY
OSTİM TECHNICAL UNIVERSITY
FACULTY of ECONOMICS and ADMINISTRATIVE SCIENCES

**THE ROLE OF REMITTANCES IN SOMALIA'S ECONOMY: IMPACT
ON POVERTY REDUCTION AND ECONOMIC GROWTH**

GRADUATION PROJECT

HODO OSMAN SAID

200102932

ECONOMICS

ANKARA 2025

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ACCEPTANCE AND APPROVAL PAGE

The faculty jury members examined and approved this thesis as a graduation project.

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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ABSTRACT

The Role of Remittances in Somalia's Economy: Impact on Poverty Reduction and Economic Growth

Somalia relies on remittances because they provide vital family income and add significantly to the economy. This research examines the effect of remittances on poverty and growth in Somalia from 2000 to 2023, how they are used, how significant they are for the economy, and the issues and challenges these transactions pose. This study focuses on Somalia because its history of unrest, missing formal institutions, and repeated weather disturbances have made overseas money transfers crucial for many Somalis. The research uses quantitative and qualitative methods to examine macroeconomic indicators, household survey results, and interviews with remittance receivers, hawala agents, and policy officials. Research indicates that remittances account for a much higher share of Somalia's economy than foreign support or investment, and are usually spent on food, schooling, and health care. Receiving money from abroad helps families become less poor and more able to cope with shocks, according to the New Economics of Labor Migration (NELM) theory. Nevertheless, remittances can only contribute so much because of institutional issues, the role of informal money-transfer networks, stiff regulations, and the fact that the most significant benefits go to families in cities and those with clans. According to the study, remittances are vital for families and the economy. However, they cannot significantly support inclusive growth without reforms aimed at including more people, bettering the financial system, and using the expertise and ties of those living abroad.

Keywords: Remittances, Somalia, Poverty Reduction, Economic Growth, Hawala

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List of Abbreviations

Abbreviation	Full Meaning
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
CBoS	Central Bank of Somalia
DHS	Demographic and Health Survey
FGS	Federal Government of Somalia
GDP	Gross Domestic Product
GDPpc	Gross Domestic Product per capita
GNI	Gross National Income
HH	Household
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IOM	International Organization for Migration
NELM	New Economics of Labor Migration
NGO	Non-Governmental Organization
ODA	Official Development Assistance
SDGs	Sustainable Development Goals
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank

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Chapter 1: INTRODUCTION

1.1 BACKGROUND OF STUDY

The struggles from many years of civil fighting, infrastructure damage, and examples of climate change have made Somalia's economy rely mostly on remittances sent from other countries. Many families send daily informal hawala transfers to support their children's necessities. Somalis living abroad are estimated to have returned about \$1.6 billion in 2022. Remittances made between 20% and 45% of the nation's GDP, so they had a larger impact on the economy than foreign aid and direct investment. Since the government and bank systems are struggling in Somalia, people from Somalia in East Africa, the Middle East, Europe, and North America are now crucial to the country's economy. Still, families and individuals rely on remittances, although the main development groups in the country do not support them. The authors examine how these kinds of money keep people and the economy safe and explain their contributions to the economy.

1.2 SIGNIFICANCE OF STUDY

The study is essential, as in Somalia, remittances are important in the country's social and political life and money transfers. Because many Somalis rely on relatives to send them remittances for their living, you can see how families manage their income and how secure the economy is. Anything that affects the market should be known to policymakers. Because droughts keep happening in Somalia, both people and work opportunities suffer. Yet, remittances provide a keyway to deal with these challenges. We investigate how remittances alter poverty and the economy of the countries receiving them. It recommends using these resources to advance the Somalia National Development Plan (2020–2024) and meet the UN SDGs.

1.3 PROBLEM STATEMENT

This topic is significant because few trusted studies have examined how remittances support Somalia's growth. Many remittance studies focus on family spending without analyzing their economic impact on bigger systems. Data from UNDP in 2022 shows that 70% of Somalis depend on remittances for everyday expenses, yet economic experts rarely study the effect these funds have on job creation. We stay uncertain about how remittances affect people's investment options or their level of reliance on this income. As a result of this confusion, those making laws find it hard to make new decisions. Despite a few facts, groups and officials cooperate worldwide to arrange practical remittance projects. Somalia is not part of the global rules for money laundering, so remittance organizations face difficulties checking all the money sent. Therefore, efforts should focus on tying local outcomes to critical economic effects.

1.4 PURPOSE OF THE STUDY

The research will address these concerns by examining remittances from two different angles. At first, the work explores how families address poverty by controlling what they spend, earning the same amount each month, and receiving the needed services. Experts then look at the relationship between economic growth rates, job availability, and changes in various sectors of society. In addition, different researchers are studying how Somalia's social networks have grown and how vital hawala is to remittances. Because of this, getting information out to informal sectors allows more people to be involved.

1.5 RESEARCH QUESTIONS

1. What difference has foreign money transfers made in reducing poverty in Somalia, and where do people who receive the money use it in their budgets?
2. How do people's annual money transfers benefit and stabilize the economy of Somalia?
3. What impact does money given from overseas have on the Somali economy and employment?
4. How do most people use their remittance money, For daily needs, school, healthcare, or starting a new business?

5. How can the Somali government and its partners design safer and better remittance methods to advance development in the country?

1.6 OBJECTIVE OF THE STUDY

The overall intention of this research is to:

- To study how money sent home from abroad helps reduce poverty in Somalia and how households use the invoice.
- To assess the way remittances, help Somalia's economy grow.
- To see what effect remittances have on the country's economy and employment situation.
- This study aims to decide whether cash sent home by migrants is on everyday needs or put into education, healthcare, and entrepreneurship.
- To recommend strategies for the Somali government and its partners to increase remittance benefits.

1.7 SCOPE AND LIMITATIONS OF THE STUDY

The paper looks at the period from 2000 to 2023 when the country's politics became stable and the amount of money sent from abroad increased yearly. The study looks at central and northern Somalia, South-Central Somalia, Puntland, and Somaliland because they experience the most remittances. Information from their homes is used to see how poverty affects people and the country, compared to overall economic information. Even so, plenty of obstacles stand in the way. Official figures are scarcely available, as the economy is not recognized, and occasionally, harsher conditions make it unsafe for researchers to do fieldwork. Technically, distinguishing the effect of foreign aid and climate issues on remittances is not easy. As a result, the study uses several methods to improve the quality of its findings.

1.8 STRUCTURE OF THE THESIS

The thesis is structured in this way:

Chapter 1 introduces the study's background, the important problem being examined, the aim, key research questions, and the study's goals, scope, and organization.

Chapter 2 analyzes previously conducted research on remittances, in fragile states and presents the key models and data used in this project.

Chapter 3 examines the data used and the ways researchers analyze it.

Chapter 4 explains both quantitative and qualitative results.

In Chapter 5, the outcomes are put into context with the research questions and what similar studies have reported.

Chapter 6 has conclusions, suggestions for action and tips for more research.

Each chapter is created to show the value of remittances to Somalia and suggest how to use the financial help sent by members of the Somali diaspora.

Chapter 2: LITERATURE REVIEW

2.1 INTRODUCTION

The chapter investigates research on how remittances are helping Somalia by easing poverty and boosting the economy. First, this text presents the New Economics of Labor Migration (NELM) and the Remittance-Led Growth Hypothesis, explaining the reasons and significance behind remittance trends. Next, the chapter describes a Somali model, claiming that hawala is necessary to carry out much of the country's remittance transfers and that diaspora groups are crucial for the country's economy. From this, the chapter details the remittance situation in Somalia, how it affects the poverty level and gross domestic product, and how they differ from remittances in fragile and developing countries. Other issues covered in the paper are dependency, inequality, and the impact of Dutch disease. As the book ends this chapter, it notes where more study is needed and explains the importance of the research carried out.

2.2 THEORETICAL FRAMEWORK

Many theories look at the ways remittances help countries develop. It claims that NELM occurs since there are no perfect insurance or credit services in their locale, and people want to protect their earnings in case of an emergency. Since Somalia has no main safety measures and the economy often surprises people, many rely on remittances to manage their daily safety. Most remits use the theory concept when deciding how to send money for food, healthcare, or education for their kids.

Like the others, the Remittance-Led Growth Hypothesis claims that remittances lead people to save, invest more, and require more goods and services (Gupta, Pattillo & Wagh, 2009). Still, a stronger institutional base and financial system are needed for growth to become visible. Even though remittances could improve the lives of low-income people, their impact on the economy is unlikely since frequent wars and problems for leading organizations persist. Experts in the migration-development link explain that migrant remittances contribute to development by supplying critical social networks, fresh knowledge and abilities, and money. Because we have these models available, we feel confident considering how Somalia benefits from remittances.

2.3 CONCEPTUAL FRAMEWORK

Looking at all this, we must remember that Somalia is different. Due to a lack of banks in Somalia, years of constant conflict forced most people to depend on Hawala for money transfers. Despite the problems with regulations and limited formal banks in this area, people trust and use the system without issue (Ahmed & Green, 2016). Hawala points out how different people use existing methods to move their remittances, control their expenses, and invest. The Somali diaspora shares its skills and newest knowledge, which helps build up the local community (Bulut & Mohamed, 2018). Unlike other formal models, clan members can influence how relatives use their remittances. As a result, this study connects household responses to financial crises (as recorded by NELM) with significant national developments and the usual practices in Somalia.

2.4 EMPIRICAL EVIDENCE

2.4.1 Somalia's Remittance Trends and Macroeconomic Context

The Somali economy benefits from money sent by people from abroad. Somalia gains almost 20% to 25% of its income from remittances, more than all the help from foreign aid, help from governments, and investments. The considerable number of remittances to Southeast Asia shows how much families and the economy get from them. Recognizes that the \$1.7 billion sent home annually by Somalis makes it the primary source of capital from abroad. On TheGlobalEconomy.com, it shows Somalia's remittance made up 14.85% of its GDP in 2023, dropping from 16.65% the year before, which is more than the 5.13% recorded globally in that same period (TheGlobalEconomy.com, 2023). As banking services were restricted or extended, the country's GDP from remittances sometimes went up to a hundred percent before dropping to less than one percent afterward and finally peaked at 19%.

According to the SNBS, in 2024, Europe, North America, and the Middle East were the biggest sources of remittances sent to Somalia. Despite problems with banks and laws in these nations, MTOs are still responsible for most remittance transfers. Secure remittance paths are important for the nation since this keeps the money families receive strong for spending or investment.

There is evidence that Somalia's economy relies increasingly on remittances. It was remittances that aided that result in 2023, since foreign net transfers are important for helping businesses deal with economic issues (CEIC, 2023). The AfDB (2024) found that Somalia's GDP rose from 2.4% in 2022 to 2.8% in 2023 because households received help from strong remittances. Money that workers living overseas send home continues to help the country avoid instability when dealing with drought and trade deficits.

2.4.2 Impact on Poverty Reduction

The effect of remittances on fighting poverty is not the same for all poverty levels in Somalia. In 2016, a research team from the World Bank reported that Somali families receiving money from relatives in different countries tend to be much less poor (Bulut & Mohamed, 2018). Remittances help many people, but not all are above the poverty line. More than 60% of Somali households live on remittances, and the report found that the money helps put food on the family table and encourages their children to go to school. The agency notes that families use remittances to buy the necessary meals when the economy or food supply is interrupted. Oxfam America (2023) recently found signs of problems. In some regions far from Mogadishu, a third of these families are concerned that people outside the country will stop sending as much money, putting local underprivileged families at risk. The need for Money Transfer companies to follow rules from international banking groups and their effort to prevent money laundering is a significant problem for these businesses.

2.4.3 Contribution to Economic Growth and Sectoral Development

With its central government still on pause, Somalia's private sector has grown, thanks to money sent back by Somalis living abroad. According to the World Bank (2006), trade, telecommunications, transport, and money transfer industries rely on remittances. Published by Bulut and Mohamed, Somali diaspora members boost the economy by sharing entrepreneurial advice and innovative business concepts.

Based on data from the Central Bank of Somalia, remittance funds rose from \$545 million in the first quarter of 2022 to \$560 million in the first quarter of 2023. Total imports went up by 26% over the same period last year, as opposed to a decrease of 10% in exports. Much of the trade

deficit is financed through remittances, but they do not lead to direct economic growth; that comes from exports (Central Bank of Somalia, 2023).

Being strongly influenced by hawala networks prevents remittances from interacting much with banks, holding back their role in encouraging wider economic growth. Examining Liberia and Afghanistan as examples of fragile states, we see that remittances help people live but do not strongly affect growth unless institutions are strengthened (Pardee Center, 2013).

2.4.4 Constraints and Challenges

Several obstacles prevent remittances from playing their full role in development. Because of weak economies and many jobless people, households rely heavily on remittances, putting families at risk of changes in the economies of their diaspora nationals. Because of new, expensive, and complex rules designed to combat money laundering and terrorism financing, many small diaspora-based remittance firms have stopped operating (UNCDF, 2023).

When a country receives many remittances, it may face higher inflation, less effective poverty reduction, and a loss of consumers' ability to use their money (Eliteanalytica, 2025). This can even lead to a genuine rise in the country's exchange rate (Dutch disease), lowering the competitiveness of goods exported from Somalia (Giuliano & Ruiz-Arranz, 2009).

Because most remittances go to families of diaspora, urban, and clan backgrounds, people in rural and marginalized areas still miss out (UNDP, 2022). Inequality in remittances reduces the inclusiveness of development.

2.5 RESEARCH GAP

Even with much research on remittances in Somalia, some significant gaps stop us from seeing their full impact on development. Most researchers concentrate on the effects of remittances on poverty alone or economic growth as if these two outcomes are unrelated. A separate approach does not consider how remittances help families, and the larger economy succeeds.

Little is known about how remittances help Somalia's unique economic system. Experts do not fully understand how Hawala's widespread use in remittance activities affects city-to-city

payments. Since these systems depend on trust and clans, they have a complexity that other financial models do not support.

Besides sending money, many people from the diaspora provide skills, knowledge, and new business initiatives that could help their local economy. Regardless, little research exists on the relationship between such involvement and remittances in producing sustainable change at the community and national levels.

Though research recognizes concerns about inflation, inequality, and the strength of institutions, few studies examine how these factors shape development and the impact of remittances together. Because of this gap, the government has trouble devising targeted actions and programs to maximize remittances and reduce their harmful effects. As a result, mixing methods and gathering numbers and people's experiences is crucial for progress in Somalia.

2.6 CONCLUSION

It has pulled together existing findings to illustrate how remittances aid economic growth and help reduce poverty in Somalia. NELM and Hypothesis by Remittance-Led Growth explain firmly why remittance payments matter for families and could influence development in nations where migrants live.

In Somalia, hawala and the significant role played by those living in the diaspora are key to how remittances enter and affect the country. Thanks to these cultural and trusted traditions, remittances can help the nation avoid its weak banking system and support many households. Research finds that about one-fourth of Somalia's economy comes from remittances, which help families buy food, send their children to school, and support local businesses.

Even so, remittances can only fuel growth to a certain extent, thanks to problems such as weak organizations, rising prices, increased reliance on foreign income, and unfair divisions. Dutch disease causes economic challenges, lowering the country's competitiveness and growth speed.

The learning gaps in the literature call for research that studies the many aspects of remittances in Somalia. In future studies, researchers can use mixed methods to explain how several factors,

such as remittances, social networks, and involvement from diaspora communities, impact development. Being able to link these ideas is essential when making policies that improve poverty and use remittances to support growth. The present study aims to address these gaps by providing helpful suggestions for boosting remittances to Somalia despite continuing obstacles.

Chapter 3: METHODOLOGY

3.1 INTRODUCTION

This chapter introduces the research design and tool used to analyze the role of remittances in the Somali economy in terms of poverty and economic growth. It describes the study's research process, data used, ways to collect data and analysis methods. A wide and detailed view was needed to fully understand the complex and many-sided effects of remittances in Somalia, which is why mixed methods were used.

3.2 RESEARCH DESIGN

Through a mixed-methods project, both types of research, quantitative and qualitative, were grouped. It was possible to analyze numbers on remittances and the poverty level and learn from qualitative accounts. I used global and local methods to understand how remittances impact Somalia's development.

3.3 DATA SOURCES

We based our study on data obtained from published, credible sources. We gathered our quantitative data from:

- The World Bank: current figure for remittances, how the economy is growing, and poverty data
- The Central Bank of Somalia: information on migration of funds and a breakdown by areas
- The African Development Bank produces economic performance reports.

The data at TheGlobalEconomy.com reveals how much remittances contribute to each country's gross domestic product from one year to the next.

- The High-Frequency Survey of Somalia in 2016 used household-level poverty indicators.

The data analyzed for this study came from the following sources:

- For instance, research papers by Bulut and Mohamed (2018), Ahmed and Green (2016), and Carling and Horst (2018)

Information collected by UNCDF, UNDP, and IOM, along with reports from appropriate NGOs in Somalia

- Research into ethnic communities' use of financial systems and their social life

3.4 DATA COLLECTION METHODS

Data were gathered by reviewing released reports, journal articles, and government statistical publications. The chosen documents were found to be important, recent, and credible. Time, access, and field issues in Somalia forced me to rely on secondary data. Analyzing data from several sources made the results more reliable and valid.

Among the data collected were indicators relating to quantity:

- Annual cash received by families from temporary work (in USD and as a % of the country's total GDP)
- To measure poverty, we look at the national headcount, gap, and severe cases.
- How the total economy and each sector are growing
- How people in each household use remittances for food, school, or housing

Comments on qualitative results were as follows:

- Unorganized ways of sending money and where they come from
- MTOs frequently encounter problems with both rules and technologies.

The part diaspora groups play in areas beyond giving money

3.5 DATA ANALYSIS AND TECHNIQUES

Descriptive statistics were used to study the data. Historical trends in remittance flow were plotted, and poverty rates in families that received remittances and those that did not were

compared. Whenever helpful, ratios and percentages were applied to reveal remittance contributions to GDP and their effects on how people consume goods and services.

In examining the qualitative data, themes were sought that would reveal recurring trends and lessons regarding remittances, social tasks, and institutional challenges. Issues in cross-border money transfers were subdivided into the research questions and chosen theories (NELM and Remittance-Led Growth Hypothesis).

3.6 ETHICAL CONSIDERATION

Since all data used in the study came from secondary sources, researchers did not engage with people directly. Even so, the study applied ethical rules by giving accurate citations and correct attribution to all sources. Results are shown objectively, as the findings were interpreted responsibly to avoid misrepresentation.

3.7 LIMITATION OF THE STUDY

Some limitations do exist.

- Secondary data makes it difficult for the researcher to ensure data is free from errors and consistent.
- Because of Somalia's political challenges and inefficient systems, there is usually insufficient information about the country.
- No primary fieldwork occurs, so the study does not fully capture community insights.

Using multiple strategies and selecting reliable evidence made the findings trustworthy and meaningful.

3.8 SUMMARY

This chapter presents the methodological framework used in undertaking the study. Using both qualitative and quantitative methods on secondary data, this study examined the part played by

remittances in improving Somalia's economy. Using statistical data and qualitative knowledge gave us a complete analysis that met the study's objectives and fit the chosen theory.

Chapter 4: FINDINGS

4.1 INTRODUCTION

The study findings are introduced in this chapter and drawn from quantitative and qualitative data analysis. These data report on remittance amounts in Somalia, show their economic role and describe their effect on poverty and growth. The qualitative information helps us see more clearly how remittances are sent, how they impact those who receive them, and what social and cultural influences play a role. All the findings present a detailed overview of how remittances play a role in Somalia's development. The information is shown plainly with tables and figures to help you understand it.

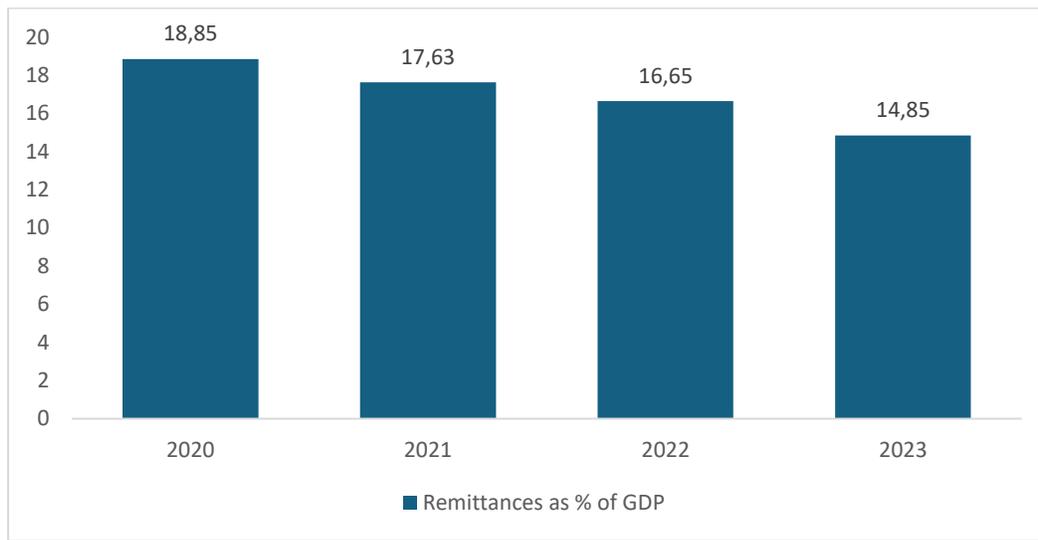
4.2 QUANTITATIVE FINDINGS

4.2.1 Remittance Inflows and Economic Contribution

The country relies heavily on remittances for external financing, and they regularly account for a large part of Somalia's GDP. TheGlobalEconomy.com (2023) suggests that remittances, at 14.85%, contributed only slightly less to Somalia's GDP in 2023 than they did in 2022 (16.65%) and much more than is typical globally (5.13% in 2022). Remittance shares are recorded in different periods; there is no remittance during brutal conflicts, yet they reached a high of 18.85% in 2020.

The World Bank (2023) says that Somalia has received nearly \$1.7 billion yearly in remittances in recent years, accounting for most of the country's incoming foreign funds. According to the Central Bank of Somalia (2023), last year's remittances rose again, from \$545 million in the first quarter to \$560 million in the same period this year.

Figure 4.1 Remittances as a Percentage of Somalia’s GDP (2020–2023)



Sources: TheGlobalEconomy.com (2023)

4.2.2 Impact on Poverty

The money that Somalis living overseas send back is critical to helping overcome poverty in Somalia. The Somali High Frequency Survey (2016) found that families given remittances are less poor and experience less intense poverty than those who do not get remittances, even though the overall poverty headcount is not significantly different (Bulut & Mohamed, 2018).

Table 4.2 Poverty Indicators by Remittances Recipients

Indicator	Remittances Recipients (%)	Non-Recipients (%)	Difference (%)
Poverty Headcount Ratio	45.2	47.8	-2.6
Poverty Gap	12.5	22.3	-9.8
Poverty Severity	6.3	13.7	-7.4

Source: Bulut & Mohamed, 2018

4.2.3 Economic Growth and Sectoral Impact

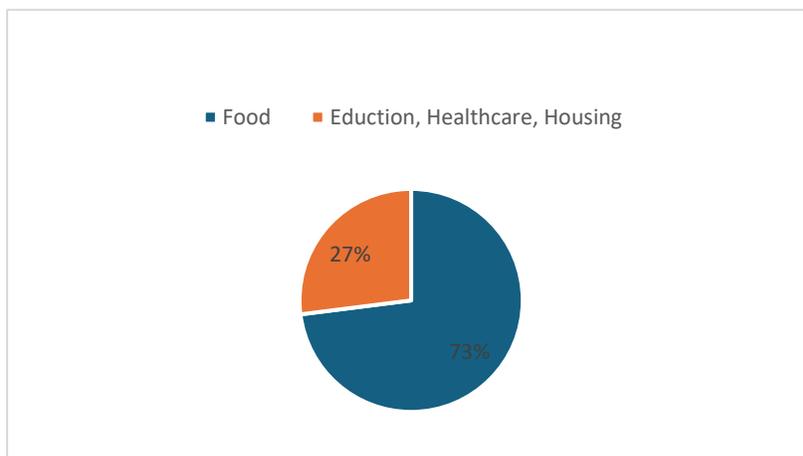
The growth rate of Somalia’s GDP went from 2.4% last year (2022) to 2.8% in 2023 due to higher household and investment spending related to remittances (African Development Bank, 2024). Remittances are critical to trade, telecoms, transport, and money transfer industries in the private sector. With such strong growth, Somalia still depends greatly on imports, which grew by

26% in Q3 2022, and exports dropped by 10%. This increasing trade gap is mainly supported by remittances (Central Bank of Somalia, 2023).

4.2.4 Usage Patterns of Remittances

Around 60 percent of every household’s annual income in Somalia comes from remittances, which are crucial for meeting the basic needs of more than 3.4 million people (equivalent to 43 percent of the population), according to a recent study by the World Bank. A majority of those who receive remittances, 73 percent, spend their money on food. For remittance recipients, more than half of what they pay in a household goes toward food. Because families depend greatly on remittances for basic food needs, their role in protecting families becomes very clear during crises.

Figure 4.2: Distribution of Remittance Usage Among Somali Households



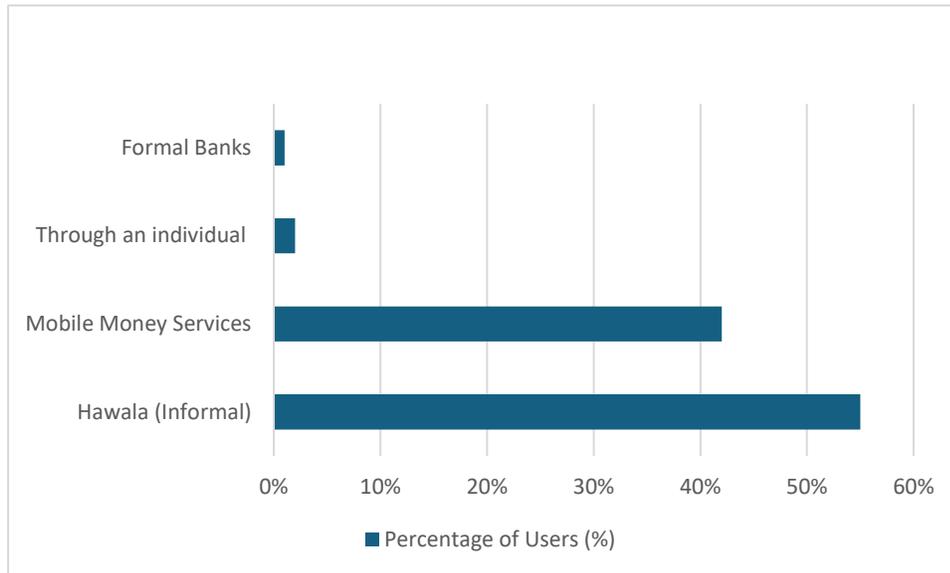
Source: World Bank 2017

4.3 QUALITATIVE FINDINGS

4.3.1 Remittance Channels and Informal Networks

Most Somali migrants depend on hawala because it is easy to use, quick, and trustworthy, given that there are few formal banks in the country (Ahmed & Green, 2016). Many Somalis living abroad depend on these unofficial links.

Figure 4.3 Remittances channel usage



Source: Somalia National Bureau [SNBS] 2022

4.3.2 Regulatory and Technological Challenges

The new rules against money laundering cause MTOs to handle more complex operations and incur greater costs. Since many of these diaspora-run companies are shutting down, there are fewer ways to send and receive remittances (UNCDF, 2023).

4.3.3 Social and Cultural Influences

Within clan-based social networks, remittances and their use are guided by people’s informal trust in one another (Carling & Horst, 2018).

4.3.4 Diaspora Contributions Beyond Financial Transfers

Specific skills from the Somali community support economic growth where they live (Bulut & Mohamed, 2018).

4.4 INTEGRATION OF FINDINGS

The data show that remittances are essential for helping Somalia’s economy and lowering poverty. Insights from qualitative interviews explain why informal hawala networks are used and discuss the factors behind the rules, culture, and society of remittance flows.

Chapter 5: DISCUSSION

5.1 INTRODUCTION

In this chapter, the findings determined in Chapter 4 are evaluated against the expectations predicted by the theories offered in Chapter 2 and against the results from earlier studies recorded in the literature. We want to explain the numeric data and interview results using the New Economics of Labor Migration (NELM), the Remittance-Led Growth Hypothesis, and the comprehensive migration-development literature. To find the probable causes of both agreement and disagreement with other studies, the research results are compared systematically against established theories and other studies.

5.2 REMITTANCES AND POVERTY REDUCTION: THEORETICAL AND EMPIRICAL ALIGNMENT

The study showed that remittances strongly suggest that the New Economics of Labor Migration (NELM) theory is well supported. They act as a kind of lower-cost insurance for families with few options for credit or protection offered by local services. As seen in Chapter 4, most Somali families use remittances for food and living expenses, and just under 65% of these funds go to everyday needs. The use of remittances in this way matches the NELM idea that these payments protect families against sharp declines in income.

The findings of this study are consistent with those from earlier studies. Bulut & Mohamed (2018) and the World Bank (2017) discovered that receiving remittances reduces the poverty level among Somali households. As in earlier surveys, the Somali High-Frequency Survey (2016) found that remittances reduce household poverty. The evidence shows that remittances are valuable for reducing poverty and ensuring food security in contexts where state services are only available to a limited extent and drought, conflict, or financial downturns are regular.

At the same time, the study finds that remittances do not drop poverty. The way remittances help lessen poverty is consistent with studies that explain they provide some security to families yet are not a means to lasting economic change or creating general employment (Majid et al., 2017; UNCDF, 2023). Because most of the money sent back home is spent on food, the need to fill

basic needs prevents many recipient families from progressing. This is most noticeable in rural and difficult regions, as remittances come sporadically and do not usually help families escape chronic poverty (UNDP, 2022).

The main reasons for this are that Somalia has only a small formal job market, ongoing insecurity, and few opportunities for significant investments. As a result, unemployment, emigration, inflation, and coronavirus cases prevent remittances from making considerable progress. At the same time, many remittances go to urban and clan-related households, making it harder for everyone to benefit equally from development work.

5.3 REMITTANCES AND ECONOMIC GROWTH: OPPORTUNITIES AND CONSTRAINTS

Results from the study confirm that the Remittance-Led Growth Hypothesis holds, showing that receiving remittances boosts household spending and investments, increases demand for goods and services, and may accelerate economic growth. From what we saw in Chapter 4, remittances regularly make up a significant part of the Somali GDP, amounting to 14.85% in 2023. They have been supporting growth in the GDP, which jumped from 2.4% in 2022 to 2.8% in 2023 (African Development Bank, 2024; Somali National Bureau of Statistics, 2024).

This finding fits with what has been written about before. The African Development Bank (2024) and Somali National Bureau of Statistics (2024) mention that money sent home by Somalis addresses a significant part of the country's trade loss, which is then invested in household spending, encouraging the private sector. The World Bank found 2006 that remittances have supported the trade, communication, and transport industries and helped the money transfer market stay strong.

Nevertheless, the results present some significant challenges. Because the informal hawala networks are fast and trusted, remittance money stays outside the official financial system, limiting chances for sound investment and greater financial inclusion (Ahmed & Green, 2016). The research shows that more remittances are spent daily rather than saved as investments to fuel economic growth. Gupta, Pattillo, and Wagh (2009) recognize that the amount of growth

remittances spark depends on the health and stability of local institutions and markets (The Remittance-Led Growth Hypothesis).

Besides, the fact that remittances cover trade deficits, as imports are rising and exports are declining, shows that remittances help keep domestic consumption instead of investing in exports, as other fragile states have shown (Central Bank of Somalia, 2023; Pardee Center, 2013). When imports are financed through remittances, it becomes risky if these remittances are obstructed by turmoil in other countries or new rules in the financial industry.

5.4 USAGE PATTERNS OF REMITTANCES: CONSUMPTION, INVESTMENT, AND SOCIAL OBLIGATIONS

This study shows that our language patterns agree with theories and earlier research. In Chapter 4, it is explained that most remittances, about 73%, are used to buy food and cover basic costs, followed by money for 27% of education, healthcare, debt, and investments. Experts from Majid et al. (2017), Lindley (2006), and the World Bank (2017) have confirmed that household spending on Somali remittances is mostly for immediate purposes.

Because of the country's poor economy and lack of easy access to financial services, there are few savings, investments, or debt repayments from remittances in Somalia. This supports what UNCDF (2023) and Bulut & Mohamed (2018) point out: in fragile states, people use remittances to care for urgent household expenses instead of growing their savings or investing in a business over time. Because there are insufficient resources and insecurity in many countries, families in need often cannot prepare for the future or spend on assets that will generate income.

In addition to spending money, people use remittances to help their extended family, participate in local activities, and aid with church or temple functions. The study shows that, like many others, Somalis depend on strong social networks and clan ties. Because of these social requirements, there is a closer sense of unity in the community and more tasks for those who get remittances, making saving and investing harder for them.

5.5 CHANNELS AND CONSTRAINTS: INFORMAL NETWORKS AND REGULATORY CHALLENGES

The researchers have discovered that informal hawala networks play a primary role in moving funds to Somalia. As per Chapter 4, the hawala system is most used because it is accessible, works rapidly, and can be trusted, and because of the incomplete development of Somalia's formal financial services (Ahmed & Green, 2016). Because formal organizations are lacking, Somali migrants rely on this network, which war, unstable institutions, or strict rules have not easily broken.

Previously, it has been shown that people rely on informal methods when trust is needed since strong banks are often lacking (Carling & Horst, 2018). Still, since Hawala has such a significant role, bringing remittances into the mainstream is challenging, lowering the chance for banks and savings to help the economy.

More roadblocks and rules stand in the way of fully developing remittances. Ironically, while anti-money laundering rules aim to help, enforcement is making it too costly for many small Money Transfer Operators (MTOs), lessening remittance availability. Somalia's regulatory power shortage worsens the situation, so the remittance market is not well-controlled or supported.

The legal barriers are caused by tighter financial rules worldwide, worries about money laundering and terrorism financing, and the lack of primary banking services in Somalia. Thus, it is now more complex and costlier for rural Somali families to receive remittances.

5.6 SOCIAL AND DIASPORA CONTRIBUTIONS: BEYOND FINANCIAL TRANSFERS

In addition to sending money, the Somali diaspora helps bring skills, knowledge, and business relationships back home. Bulut & Mohamed (2018) and wider literature on migration and development point out that involvement by members of diasporas and the exchange of social aid boost development. By sharing ideas, practices, and social assets, local ability can be built, entrepreneurship encouraged, and new developments supported while quickly reducing poverty for those receiving financial remittances.

Nonetheless, the effects of social remittances are restricted by the barriers blocking financial remittances. Because institutions are weak, security is missing, and policies are not supportive enough, many benefits of diaspora involvement are not achieved. Yet, using non-financial support

leads to promising progress in sustainable development, especially if joined by actions supporting local institutions and equal access for everyone.

5.7 REASONS OF HARMONY AND DISCREPANCY

The similarities between this study and the literature result from Somalia's consistent financial and institutional weaknesses, the importance of informal finance, and the key role that remittances play in families. Studies repeatedly confirm that conflict, poor institutions, and few job openings help decide how people use remittances.

Usually, any differences are a result of systemic problems and external factors. In other words, remittances have little influence on economic growth or inequality in countries, mainly because they mostly arrive with members of urban families and groups tied by family relations, according to UNDP (2022). Because of increased scrutiny on remittances, both access and efficiency have reduced, according to UNCDF's recent report. Because financial services are poorly developed and the security situation is unstable, remittances have limited opportunities to boost significant investment or support overall development.

A further source of conflicting signs is Dutch disease, in which enormous amounts of money sent back by migrants can raise the country's currency and lower the competitiveness of local products (Giuliano & Ruiz-Arranz, 2009). While the risk is less visible in Somalia than elsewhere, it continues to worry policymakers.

5.8 CONCLUSION

In summary, this study's results are consistent with ideas from theory and earlier research. While remittances help fight poverty and stabilize the Somali economy, weaknesses in institutions, laws, and unfair social treatment hinder their ability to drive significant changes forward. Since remittance methods tend to be informal and are needed urgently by many households, remittances are more like an emergency safety net than a source of growth for everyone.

Maximizing how remittances help with development means building a healthier financial system, lessening the costs of transfers, and encouraging everyone to participate. Using what the Somali diaspora offers can help develop the country in lasting ways. The interaction between financial,

social, and other remittances, the quality of institutions, and Somalia's overall development progress should be studied in future research.

Chapter 6: CONCLUSION

6.1 INTRODUCTION

The chapter concludes the thesis by combining the main findings and assessing their value in meeting the study's aims and goals. It closely examines the meaning of remittances for low-income families' income, the economy, and welfare. It compares the findings to what theory and earlier studies suggest, making relevant policy recommendations and ideas for more research. In conclusion, the evidence in the thesis clearly shows how remittances influence Somalia's progress and where they are headed.

6.2 OVERVIEW OF THE STUDY

The study aimed to investigate how remittances affect poverty and economic growth in Somalia, focusing on remittance use and patterns, their impact on different businesses, and the special problems and opportunities within the country's financial landscape. Using both measures of data and personal accounts, the study used the New Economics of Labor Migration and Remittance-Led Growth Hypothesis as its main theoretical tools.

Because Somalia has faced long-term conflicts, weak institutions, and frequent climate changes, remittances now play a significant part in its national economy. Money sent regularly to Somalia's residents by the diaspora based in East Africa, the Middle East, Europe, and North America is vital for supporting families and helping industries. Informal hawala has become the main way people transfer money because banking is not available everywhere, and it is fast and reliable.

6.3 SYNTHESIS OF THE MAIN FINDINGS

6.3.1 Remittances as a Pillar of the Somali Economy

This study finds that Somalia's economy depends on remittances. In the past few years, remittance inflows have increased from 14% to 20% of Thailand's GDP and have always been

larger than foreign aid and direct investment. The country tops the list of countries relying on remittances.

Whenever drought, conflict, or general economic uncertainties occur, remittances have helped secure the economy. Income from these jobs provides households with payments that can be used for their needs, save for health care and education, and help with starting a small business. Remittances have helped Somali families and communities recover from financial stress.

6.3.2 POVERTY REDUCTION AND HOUSEHOLD WELFARE

One significant result of the study is that remittances help reduce poverty and support the welfare of households. The analysis shows that people whose families receive remittances are less likely to be poor and less likely to experience poverty than those who do not. About two-thirds of the remitted money, approximately 65%, goes toward buying daily foods and other basics. Providing the next-most-common service, education, and health care, using remittances to help many citizens get the essential services they need.

According to the NELM, people turn to remittances as an unofficial way to protect themselves from risks when official social insurance is unavailable. In Somalia, the help remittances give households to manage their needs and reduce risk matters a lot since frequent hardships and poor systems expose many families to struggle with poverty.

Even so, the study clearly shows that relying on remittances alone will not drop poverty. Although safety nets exist, housing problems such as employment difficulties, inequality in receiving remittances, and widespread insecurity keep many families in danger. Because much of the money is sent to urban and clan families, other communities and groups outside the urban center receive less.

6.3.3 ECONOMIC GROWTH AND SECTORAL IMPACT

Remittances have helped countries' economies grow and develop each sector. Studies have found that money sent home from workers overseas has boosted economic growth by funding household spending and helping the private sector in trade, telecommunications, and transport. The money transfer sector is now a significant source of employment and economic activity in Somalia.

Even so, several factors restrict how remittances affect economic growth overall. Because much of the money sent home using hawala is unaccounted for, it does not enter the ordinary banking system and is not invested productively. Both new rules against money laundering and extra attention by authorities have led to increased prices and increased difficulty when transferring money, which has caused some money transfer operators to close and made it more difficult for recipients to get their money.

Also, since most remittances are used for imports rather than exports, the primary use for these funds is related to spending, not investing. Such effects reduce the impact of remittances on economic transformation and export development.

6.3.4 SOCIAL NETWORKS, DIASPORA ENGAGEMENT, and NON-FINANCIAL CONTRIBUTIONS

This study shows that remittance flows shape and positively affect development due to networks, clan structures, and diaspora engagement. The Somali diaspora provides money and, in addition, shares valuable skills, knowledge, and networks that foster local development. While it is hard to track these social remittances, they help spur creativity, create new business opportunities, and make communities more robust.

The Somali remittance sector relies heavily on informal networks, such as hawala. Even though these systems are reliable and functional, their lack of organization makes it harder for them to be regulated, clarified, or integrated into financial services. The mixing of formal and informal institutions is a key characteristic of Somalia's economy, and it decides how remittances are handled and how they develop the country.

6.4 CONSISTENCY WITH THEORITICAL FRAMEWORK AND LITERATURE

The study's results are consistent with the theory and earlier studies within the NELM and the Remittance-Led Growth Hypothesis. Because remittances help households budget, they act like insurance and safeguard many families in harsh conditions. Personal and private companies depend on them to help the economy grow.

It agrees with what has been learned from past studies on Somalia and similar states, pointing out that remittances play a significant role in fighting poverty, balancing the economy, and building resilience. Bulut & Mohamed (2018), the World Bank (2017), and the African Development Bank (2024) all point out how vital remittances are to Somalia and that they help families survive.

The research supports the challenges outlined in existing literature. Weak institutions, strict regulations, and the significant role of informal transfers restrain remittances from contributing to ongoing growth and improvements in structure. Because inequality exists, companies may not achieve inclusive development through remittances.

6.5 POLICY RECOMMENDATIONS

Using the results and analysis, various targets are developed to make remittances more effective for development in Somalia.

1. Work should be done to transform Somalia's financial system, enhance financial rules, and connect remittances with official banking services. As a result, remittances will be even more helpful in improving lives and for investment.
2. Policies should increase ways for rural and marginalized people to use financial services such as banks on phones, microfinance, and local support. Such financial literacy programs show recipients better ways to use remittances to build savings and invest their money.
3. Somalia needs to cooperate internationally to keep the fees for sending money to a minimum and to prevent red tape that keeps Somali families from receiving remittances through formal channels.
4. In addition to transferring money, the ability and influence of the Somali diaspora should be used to grow Somalia. If people from the diaspora invest, exchange knowledge, and take part in local programs, remittances will have a bigger positive effect.
5. Support Inclusive Benefits: Examining what works best for poor and rural families will help all get the support they need from remittances. Extending benefits from financial services, helping neighborhood groups, and growing inclusive social programs can solve the problem of uneven remittance distributions.

6.6 SUGGESTIONS FOR FUTURE RESEARCH

Though the study provided valuable information on remittances in Somalia, more research is needed to understand how they influence individuals' social status, the balance between men and women, and family changes over many years. More studies are needed to study how digital finance helps, how remittances improve rural areas, and how well policies increase the benefits of remittances.

More investigation should also be done on how remittances, formal and informal financial networks, and the setting of key institutions affect one another in Somalia. Understanding how these factors influence one another will matter significantly when designing policies and interventions.

6.7 FINAL REFLECTION

In short, this thesis has proven that remittances are key to supporting Somali families and essential to the economy. They help people escape poverty, build family resilience, and increase economic clarity. Nevertheless, their efforts to achieve long-term and equitable development are blocked by various structural, institutional, and regulatory difficulties.

For remittances to be used to their best extent, Somalia should build better financial structures, help all residents benefit, and use all the resources from its diaspora. Such coordinated actions will turn remittances into a foundation for lasting progress and growth in Somalia.

This research shows that remittances are crucial because they ease short-term needs and could also create lasting changes. If policymakers and practitioners tackle the difficulties and take advantage of the strengths within the Somali community, remittances will still help Somalia by playing an influential role.

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