



POLICY BRIEF

Remittances as Engines of Development in Somaliland Beyond Daily Expenses

September 2025

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Table of Contents

1. Summary	4
2. Background	4
3. Current Role of Remittances	4
4. Untapped Development Potential	5
5. Key Challenges	5
6. Policy Pathways for Remittance-Driven Development.....	5
7. Policy Recommendations	6
8. Conclusion.....	6
9. References.....	7



1. Summary

This policy brief examines the role of remittances in Somaliland's economy and their potential to transition from a source of household survival support to engines of sustainable development.

Remittances remain the largest external financial inflow, exceeding aid and foreign direct investment combined, with over \$3 billion annually. They sustain families, stabilize the macroeconomy, and have driven innovations in mobile money. However, their development potential is underutilized, as they are primarily used for consumption rather than investment.

Harnessing remittances for enterprise development, infrastructure, and financial inclusion requires a national strategy, robust financial infrastructure, and diaspora engagement. By creating structured investment vehicles such as diaspora bonds, strengthening financial literacy, and promoting gender-responsive finance, Somaliland can transform remittances into a driver of inclusive growth and long-term prosperity.

2. Background

Remittances play a central role in Somaliland's economy. According to the Bank of Somaliland (2022), total remittance flows reached \$2.9 billion in 2020 and \$3.17 billion in 2021. They account for more than 50% of household income in many families (ILO, 2021) and are larger than aid and foreign direct investment combined.

Despite their size, remittances are predominantly used for consumption, limiting their potential to drive enterprise development, job creation, and long-term economic growth.

3. Current Role of Remittances

3.1: Household Security: Remittances cover food, rent, healthcare, and education, sustaining households and acting as a lifeline during droughts and crises.

3.2: Macroeconomic Stabilizer: They serve as Somaliland's main source of foreign exchange, supporting currency stability and cushioning the economy from external shocks. Unlike aid or investment, remittances increase during crises.

3.3: Financial System Driver: Somaliland's banking sector evolved from the hawala system, with remittances forming the backbone of financial flows. They have also fueled mobile money innovation, now used by more than 80% of adults.

4. Untapped Development Potential

While remittances sustain families, their development potential remains underutilized. They could be pooled to finance SMEs, youth entrepreneurship, and infrastructure. Diaspora communities could serve as micro-investors, and linking remittances to banks and mobile money could expand financial inclusion.

5. Key Challenges

- Consumption-driven use.
- Weak financial infrastructure (no credit bureau, collateral registry, or integrated payments system).
- Informality in the economy.
- Low financial inclusion (<2% account ownership in 2020).
- Gender and rural exclusion.
- Lack of investment products.

6. Policy Pathways for Remittance-Driven Development

- Diaspora Investment Mechanisms: Bonds, pooled funds, and targeted incentives.
- Integration with Financial Institutions: Remittance-backed loans, SME financing.
- Digital Transformation: Strengthening mobile money and digital remittances.
- Financial Literacy & Capacity Building: Promoting savings and investments.
- Gender-Responsive Finance: Supporting women-focused microfinance and entrepreneurship.
- Diaspora Engagement Platforms: Building forums and digital platforms to link diaspora with SMEs.

7. Policy Recommendations

1. National Remittance Strategy – BOS-led framework to map flows, set targets (e.g., channel 10–15% into SME financing).
2. Mobilize Investment – Launch diaspora bonds, pooled funds, and remittance-linked savings for infrastructure, SMEs, and renewable energy.
3. Strengthen Financial Infrastructure – Establish a credit bureau, collateral registry, clearing system, and national ID/KYC.
4. Regulate Mobile Money – License operators, enforce AML/CTF, ensure interoperability (Zaad ↔ E-Dahab), and add consumer protections.
5. Boost Financial Literacy – Community programs (youth & women) on saving, investment, and entrepreneurship with diaspora mentorship.
6. Gender-Responsive Finance – Expand microfinance, Sharia-compliant products, and business training for women.
7. Diaspora Engagement Platforms – Investment forums and digital platforms linking diaspora to SMEs and startups

8. Conclusion

Remittances are Somaliland’s “invisible development bank.” With inflows exceeding \$3 billion annually, they not only sustain families but also hold the potential to fuel inclusive and sustainable development. By implementing a national remittance strategy, modernizing financial infrastructure, and engaging the diaspora, Somaliland can transform remittances from survival funds into a driver of national prosperity.

9. References

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