

# Remittance Volumes and Trends

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## Remittance Volumes and Trends: Somalia

### Overview

Remittances represent a critical lifeline for Somalia's economy, serving as the largest source of external financing and playing a vital role in supporting household consumption, investment, and economic stability. The remittance flows to Somalia come primarily from the large Somali diaspora living in countries such as Kenya, Ethiopia, Yemen, the United States, and various European nations.

### Current Remittance Volumes

According to the World Bank and International Monetary Fund data:

- Personal remittances received as a percentage of GDP for Somalia stood at **18.8%** in 2018
- Somali migrants send on average **\$1.3 billion per year** based on International Monetary Fund estimates
- Remittances represented **20 percent of GDP** in 2017
- The actual volume is likely well below the true figure due to substantial informal flows that go unrecorded

### Historical Trends

The World Bank data shows significant fluctuations in remittance flows as a percentage of GDP over time:

- In the early 1980s, remittances represented approximately 6-9% of GDP

- During the civil war period of the 1990s and early 2000s, recorded remittances were minimal due to the collapse of formal financial systems
- Since 2015, there has been a dramatic increase in recorded remittances, reaching nearly 20% of GDP
- This recent increase likely reflects both growing diaspora contributions and improved data collection methods rather than solely increased remittance volumes

## Economic Significance

Remittances serve multiple critical functions in Somalia's economy:

- **External Development Finance:** Remittances represent Somalia's major source of external development finance
- **International Reserves:** They contribute significantly to international reserves
- **Import Financing:** Help finance imports of essential goods and services
- **Current Account Position:** Improve Somalia's current account position
- **Household Support:** Provide direct income support to recipient households
- **Crisis Resilience:** Offer a relatively stable source of foreign exchange during economic shocks

## Remittance Corridors

The primary remittance corridors for Somalia include:

- **North America:** Particularly the United States, with significant Somali communities in Minnesota, Ohio, and Washington
- **Europe:** Major sources include the United Kingdom, Sweden, Norway, and the Netherlands
- **Middle East:** Historically important sources include Saudi Arabia, UAE, and Qatar
- **East Africa:** Kenya hosts a large Somali refugee and migrant population that sends remittances
- **Australia:** Growing Somali diaspora community contributing to remittance flows

## Remittance Infrastructure

Somalia's remittance system operates through a combination of formal and informal channels:

- **Hawala System:** Traditional informal value transfer system that remains important
- **Mobile Money:** Increasingly important channel leveraging Somalia's high mobile penetration
- **Money Transfer Operators (MTOs):** Companies like Dahabshiil, Amal Express, and Taaj
- **Banking Partnerships:** Limited but growing formal banking channels
- **Digital Platforms:** Emerging fintech solutions connecting diaspora to recipients

## Challenges and Vulnerabilities

Several factors affect the stability and growth of remittance flows:

- **Data Collection Limitations:** Significant gaps in remittance data collection systems
- **De-risking by International Banks:** Compliance concerns limiting formal remittance channels
- **High Transaction Costs:** Fees can reduce the value of remittances received
- **Dependency Risks:** Economic vulnerability due to high dependence on remittances
- **Regional Instability:** Political and security issues affecting remittance corridors

## Future Outlook

The future of Somalia's remittance flows will likely be shaped by:

- Continued diaspora engagement and investment in homeland
- Improvements in formal financial infrastructure
- Integration of mobile money and digital financial services
- Regulatory developments both in Somalia and sending countries
- Economic conditions in countries hosting large Somali diaspora communities

## References

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2. World Bank. (2020). Somali Poverty and Vulnerability Assessment: Findings for Wave 2 of the Somali High Frequency Survey. Retrieved from <https://documents1.worldbank.org/curated/en/597711594118138283/pdf/Summary-of-Chapter-6-Remittances.pdf>