

## The Relationship between Remittance and Household Poverty in Mogadishu - Somalia

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**Abstract:** *The study examined the correlation between remittance and Household poverty in the Mogadishu. The aim of this study was to establish the correlation between remittance and Household poverty in Mogadishu. The study adopted a none-experimental case study survey design. Using a sample 399 respondents this study applied both quantitative and qualitative approaches in the analysis of its sample. The Sample covered respondents who receive and do not receive remittance in Mogadishu capital city of Somalia. Questionnaires were the main instruments of data collection. The data collected was analysed using the statistical package for social sciences. This study found out that Remittance had a significant relationship with poverty level. It went further to predict a 21.4% variance in poverty levels. It was also noted that there was a significant welfare and poverty level difference between households who received remittance and those who do not receive remittance. The study suggests that the government of Somalia should provide for microeconomic policies, technical advice and other enabling environments that facilitate proper micro-economic utilization of remittance in accessing education, health services, improved income and employment creation to reduce poverty level and enhance improved living standards for its beneficiaries*

**Key Words:** *Remittances, Poverty, Human Development Index, Chi-square, Non-Government Organization*

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### I. Introduction

Over the last two decades, developing countries have witnessed an unparalleled rise in workers' remittances. According to the World Bank (2006) estimates, official remittances received by LDCs increased from US\$31.2 billion in 1990 to US\$221.3 billion in 2005, representing an annual growth rate of over 13 percent. Remittances are now equivalent to about 35 percent of total financial flows to developing countries and have surpassed both official development aid flows and non-foreign direct investment flows (ref, 2015). Moreover, the true size of remittances including unrecorded remittance flows is estimated to be at least 50 percent larger (World Bank, 2006).

Leeson (2007), observed that in the 1980s the government of Somalia turned to inflation to finance its corrupt and bankrupt projects. Between 1983 and 1990, average annual depreciation of the Somali shilling against the US\$ was over 100 percent. In some years depreciation exceeded 300 percent (Little, 2003). Hyperinflation destroyed the savings of Somalis who managed to accrue modest sums over time. It also incapacitated the monetary unit as a means of economic calculation. Government's willful mismanagement of public resources prevented the state from being self-supporting. International development agencies, eager to woo Somalia from the influences of Eastern Europe, filled the shortfall with massive inflows of foreign aid (ref). By the mid-1980s, 100 percent of Somalia's development budget and 50 percent of its recurrent budget was funded by foreign aid (UNDP, 2001). In 1987 more than 70 percent of the state's total operating budget was financed this way (Mubarak, 1996).

The early-1980s saw a temporary spike in government expenditures on items like education. But by the late 80s the weight of nearly 20 years of rampant corruption, repression, and state control had reduced Somali welfare to horrifically low levels. Well prior to the government's collapse the agricultural economy was in a shambles, and malnutrition and starvation were common place. In the 1980s Somalia had one of the lowest per capita caloric intakes in the world (UNDP, 2004). At the end of the decade government spent less than one percent of GDP on economic and social services, while military and administration consumed 90 percent of the state's total recurrent expenditure (Mubarak, 1997).

In Somalia, Financial remittances from Somalis living abroad are perhaps the outstanding feature of the economy although this was not new. Their significance grew as part of the emerging parallel economy in the

1980s, when they were estimated to be worth US \$370 million annually, 75% of which came from workers in the Gulf countries. This was equal to 13 times the Somali-based national wages bill and partially explains how households at the time were able to survive on basic government salaries that covered only 8% of household expenditure. As a result of the civil war the size of the Diaspora has grown and along with it the volume of remittances. The source has also changed as the Somali Diaspora in Europe, USA, Canada, and Australia has increased. Adams (2003), noted that although remittances have become the critical source of hard currency for the country, the precise measure of remittance to poverty level is still in doubt.

Economic decline and civil war in the 1980s followed by a protracted armed conflict in the 1990s resulted in deepening levels of poverty, deprivation and vulnerability (UNDP, 2001). This is reflected in Somalia's declining Human Development Index where life expectancy stood at 47 years, infant mortality rates stood at 132/1000, maternal mortality rates stood at 1600/10000, primary school general enrollment stood at 13.6%, adult literacy stood at 17.1% and GDP per-capita stood at \$795 (UNDP Human Development report of Somalia, 2001).

Similarly, Maimbo (2006) noted that Somalia with a population of 7.3 million in 2004, and an income per capita of \$226 has long been a failed state and one of the poorest countries in the world. A total of 47% of the economically active population is unemployed in Somalia. Health infrastructure is dilapidated or non-existent, health care is only sparsely provided and school enrollment rates are the lowest in the world. Similarly, extreme poverty defined as the proportion of population living on less than 1.5 US \$ per day measured at purchasing power parity (PPP) for international comparisons and aggregation is estimated as 43.2 percent for Somalia. The extreme poverty in urban areas is 23.5 percent and in rural and nomadic areas stood at 53.4 percent. In absolute terms, the population living in extreme poverty is estimated as 2.94 million, consisting of 0.54 million in urban and 2.4 million in rural and nomadic areas (World Bank report on Somalia, 2003).

Although the economy in Somalia is largely dependent on remittance, its contribution to poverty reduction is unknown. Remittance is projected to grow and prevail as the engine of national economy during the prevailing armed conflict. Studies by Maimbo, (2006); Kulaksiz and Purdekova (2006); Lindley (2006); Waldo (2006), acknowledged the increased volumes of remittance in a conflict economy but equally questioned the role of remittance in poverty alleviation and Human Development in Somalia given the unreasonably low Human Development levels in Somalia. It was against this background that this study investigated the relationship between remittances and Household poverty in the Mogadishu city of Somalia.

## **1.2 Aims of the study**

The aim of this study is to;

- i. To establish the correlation between remittance and Household Poverty levels in Mogadishu.

## **1.3 Research Hypotheses**

The study tested the following hypotheses on remittance and house hold poverty;

- $H_{1A}$ : There is a significant relationship between remittance and house hold poverty levels in Mogadishu
- $H_{10}$ : There is no significant relationship between remittance and house hold poverty levels in Mogadishu

## **II. Review of Related Literature**

This chapter presents a review of related literature on remittance and Household poverty based on other people's opinions, findings and observations. It is done with a view of throwing more light on the study variable to make them more understandable. The first section focuses on remittance followed by poverty.

### **2.1 Remittance**

The term "remittances" has generally come to refer to the transfers, in cash or in kind, from a migrant to household residents in the country of origin. The International Monetary Fund (IMF) has a broader definition and include three categories, namely: (i) worker's remittances or transfers in cash or in kind from migrants to resident households in the country of origin; (ii) compensation to employees or the wages, salaries and other remuneration, in cash or in kind, paid to individuals who work in a country other than where they legally reside; and (iii) migrant transfers which refer to capital transfers of financial assets made by emigrants as they move from one country to another and stay for more than one year (Akkoyunlu & Vickerman, 2000).

According to Brown & Ahlburg (1999), official and unrecorded remittances from migrant households to households or other parties overseas can take form of;

*"money transfers sent via the formal banking system to households; money transferred informally in cash (bills) or via an informal agent to households; the value of all goods sent to households; payments made by the*

*migrant on behalf of households; donations by the migrant to other institutions or organizations; and deposits made into bank accounts held by the migrant overseas”.*

It has also been found that migrants remit to other institutions and organizations, mainly churches (Brown & Walker, 1995). Donations are often collected by the churches or mosques in the host countries and are held in bank accounts there, to be transferred overseas or used to settle international payments on behalf of the church in the country of origin.

Migrants sometimes also make payments on behalf of relatives or others in their country of origin for social services and investments. Finally, it has been found that migrants also transfer money to their country of origin for the purpose of acquiring assets there on their own behalf (Brown, 1997). These could be financial savings deposits with banks, or other physical assets such as land, housing, farm equipment and supplies, inventories for small businesses, and so on.

It is generally accepted that policies are needed to encourage the use of remittances to promote longer-term growth and income security in remittance receiving economies. The belief is that policies can be effective in encouraging migrants to: channel more remittances through official, rather than informal channels; increase their levels of remittances by encouraging them to hold their savings in financial assets in the migrant-sending country rather than keeping them abroad; themselves become investors in productive assets in the domestic economies of the labour-exporting countries (FATF, 2003).

Governments of migrant-sending countries have introduced a variety of schemes for migrants with the policy objectives in mind; namely, repatriable foreign exchange accounts to encourage the greater use of official channels, foreign currency denominated bonds to encourage more use of financial assets in the labour-sending country, and self-employment investment schemes to stimulate more direct investment in productive assets. In other instances governments have resorted to mandatory remittance ratios, requiring migrants to remit a given percentage of their foreign earnings through the official channels, and hence to be converted to domestic currency at the official exchange rate. In order to encourage migrants to hold their savings balances in financial assets in their “home” as opposed to host countries many governments have introduced foreign currency denominated bonds (Maimbo, 2003).

Another policy area concerns schemes to encourage migrants themselves to become investors. The findings of the recent studies indicate that there is substantial scope for policy intervention on the part of Pacific island governments wishing to increase the flows of remittances to their economies. All the evidence suggests that migrants’ remittances would be responsive to financial incentives of the sort that have been adopted elsewhere in the Asia-Pacific region to promote migrants’ remittances (Buencamino&Gorbunov, 2002).

It is generally recognized that policies to promote more remittances and to channel these into more productive areas of investment have not met with tremendous success. It is therefore useful to begin by identifying the assumptions underlying the orthodox policies adopted elsewhere to stimulate a greater flow of remittances to be directed towards more sustainable, income generating investments. The first assumption is that investment is constrained by savings and/or the availability of foreign exchange. If this were not the case there would be no reason to believe that increasing the inflow of migrants’ remittances would induce, or at least, enable, additional investment. Second, it is assumed that investment in the domestic economy of the labour-sending country is necessary if longer-term “income security” of the population is to be sustained. Otherwise, there would be no reason to be concerned that remittances were channeled into productive investments at home. Third, it is assumed that the migrants themselves are the appropriate agents for undertaking the additional investment out of remittances; that they are all, in effect, latent entrepreneurs. Fourth, it is assumed that if remittances are to be channeled into productive investments in the domestic economy, they must be transferred via the official channels. Otherwise, it would not be considered necessary to offer special incentives for migrants to use formal bank accounts to transfer their remittances. Fifth, it is assumed that the migrants’ savings, and remittance levels, are sensitive to the relative real interest rate offered. This, in turn, implies that migrants are motivated to remit for reasons of self-interest and not only to meet the consumption needs of nuclear and extended families. Otherwise, it could not be expected that offering interest incentives and attractive exchange rates to migrants would have any effect on the levels of remittances (FATF, 2003).

On a micro-level, remittances provide fundamental sources of income for the recipients of the remittances. While they have no impact on income gap between developed and developing countries, they directly contribute to economic growth of local communities providing a much needed stability. Rural households (beneficiary of approximately one third of all remittances amounts) reinvest almost every dollar received to serve basic needs like food, medicines and clothing (Adams, 2006; UN News Center, 2007). The multiplier effect is at its maximum and local markets thus fully profit from the social returns of these investments.

IFAD (2007) observed that:

*“once basic needs are served, remittances amounts will be spent in education which, on the long-term, will bring positive effects to local economies. Richer households will use remittances for entrepreneurship purposes*

*bringing social benefits in most circumstances. The impact on the economy will however depend on the receiving country and its local population's propensity to save or invest. According to the IFAD, 10-20 per cent of the amount received is saved at home, creating therefore a missed opportunity for local growth".*

In a recent study, the Organisation for Economic Cooperation and Development (OECD) highlighted that remittances are much more effective than governmental aid, which suffers directly from both grand and petty corruption, bureaucratic delays and are sometimes invested in poor-value projects. On the contrary, remittances are "direct investments" in local households which are bereft of the problems nor do they suffer directly from cyclicalities like international and government aids do. Accordingly, when conflicts happen in origin countries, remittances make available a vital lifeline, not provided by local governments interestingly, as can be seen in (Adams & Page, 2003). In the same vein, remittances are used for various forms of investment, sometimes in the agricultural sector but more frequently in the service sector, and especially into stores and transport businesses. There is some evidence that remittance money has constituted the start-up money for many small shopkeepers. Walker & Brown (1995) found that a significant proportion of remittances received by Tongan and Samoan households were used for business and farm investment.

Miambo (2006) and Lindley (2006) writing about Somalia noted that:  
*"the remittances received by a substantial minority of city-dwellers improve their economic status and access to education. In remittances often play a central role in the livelihoods of those that receive them and help finance education, in some cases allowing the family to choose higher cost forms of education. Children in the households of people receiving remittances have relatively good school attendance rates. Moreover migrants often encourage families to whom they send money to educate their children. Sibling solidarity plays a particularly crucial cultural role in the education and welfare of children and young people".*

According to the altruistic motive theory by Stark (1991), the common belief is that migrants remit for the purpose of altruistic family consumption support which may include education, health, cash at hand and investments. It is argued that migrants' remittances are motivated by other factors which could offset any weakening of the altruistic motive.

In his analysis of alternative theories of migration and remittance behavior, Rapoport & Docquier (2006), observed that as the migrant worker honours the contract or the agreement of remitting his/her earning home. They expect to be beneficiaries of family inheritance when they eventually return home. Lucas & Stark (1985) also argues that remittances are effectively a repayment of past expenditure by family in the migrant's education, the level of remittances can be expected to be positively related to human development improvement. Through remittance, poverty level reduction is achieved by utilizing the acquired income for education, health, investment and savings that eventually improves living standards and welfare. This study therefore investigated the extent to which the motive and objectives of remittance have contributed to reduction or increase in poverty levels in the capital city of Somalia.

## **2.2 Poverty**

Poverty in its most general sense is the lack of necessities. Similarly, extreme poverty defined as the proportion of population living on less than 1.5 US \$ per day measured at purchasing power parity (PPP) for international comparisons and aggregation (World Bank, 2010). Basic food, shelter, medical care, and safety are generally thought necessities based on shared values of human dignity. However, what is a necessity to one person is not uniformly a necessity to others. Needs may be relative to what is possible and are based on social definition and past experience (Sen, 1999). Valentine (1968), says that:

*"the essence of poverty is inequality. In slightly different words, the basic meaning of poverty is relative deprivation."*

A social (relative) definition of poverty allows community flexibility in addressing pressing local concerns, while objective definitions allow tracking progress and comparing one area to another.

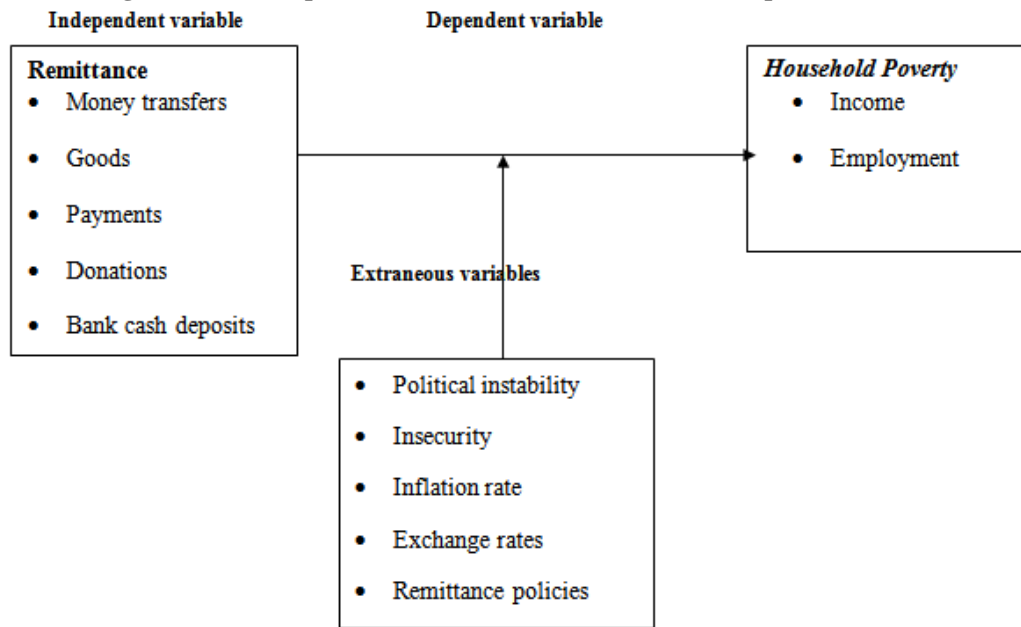
The most common "objective" definition of poverty is the statistical measure established by the federal government as the annual income needed for a family to survive. The "poverty line" was initially created in 1963 by Mollie Orshansky at the U.S. Department of Agriculture based on three times her estimate of what a family would have to spend for an adequate but far from lavish diet. This study will measure poverty as earning and leaving on less than US\$1.5 per day.

Kulaksiz & Purdekova (2006) noted that in Somalia the cost of civil conflict and absence of a state has been extremely high greatly affecting the poverty levels. The World Bank Country Economic Memorandum 2006 found that at a steady growth rate of 2% the same as that experienced during the mid and late 1980s economic real per capita output and income (assuming pre-1990 remittance flows) in 2002 could have been about a third higher than it was before the civil war (1988-90). Today, 47 percent of the economically active population is employed in Somalia. Health infrastructure is dilapidated or non-existent, health care only sparsely provided and enrollment rates in schools are the lowest in the world worsening the state of poverty in the nation.

The absence of a stable government has greatly affected Somalia's cross-border cattle trade with Kenya other Middle East nations like Yemen, Saudi Arabia and the rest (UNICEF, 2015). As the nation experiences decline in cross border trade remittances remain to be among the most reliable sources of livelihood. Livestock is the most important sector of the Somali economy. It constitutes an estimated 40 percent of Somalia's GDP and 65 percent of its exports (CIA World Fact book, 2016). As the key sectors are weakening and non performing questions are left behind on the influence of remittances of poverty levels in Mogadishu which this study intends to find out.

**2.3 Conceptual Framework**

**Figure 1.1: Showing the relationship between remittance and human development**



**III. Research Methodology**

This section presents the research design, study population, sampling method and sample size, data collection procedures, measurement of variables, data presentation and analysis.

**3.1 Research Design**

The study used a non-experimental case study survey design using quantitative and qualitative approaches. The quantitative approach was used to quantify incidences in order to describe current conditions and to investigate the influence of remittance on poverty level using information gained from the questionnaire. The qualitative approach was used to explain the events and describe findings.

**3.2 Study Area and Population**

The study was carried out in Mogadishu capital city because it is the most densely populated in Somalia, and receives the highest remittance in the whole of Somalia. It is the country's largest city, commercial and financial center. The capital city is also the most populated and easily accessible area. The population of Mogadishu capital city of Somalia was estimated population of 2,587,183 according to the Geo Names (2007) geographical database in 16 districts at the time of this study. The study estimated a household to constitute of 7 members giving a total estimate of 369,598 households.

**3.3 Sample size and sampling techniques**

The study used a total of 399 house hold as respondents obtained using the formula proposed by Sloven (1990).

$$n = \frac{N}{1 + N^{e-2}}$$

where n = sample size, N = population, e = 0.05

$$\text{Therefore } n = \frac{369598}{1 + 369598 * 25 / 10000} = 399$$

The study used stratified sampling method to select 399 respondents in Mogadishu. Stratified sampling was sought to separate those who receive remittance and those who do not receive remittance. Because in stratified

sampling the population is divided into sub populations such that the elements within each sub-population are homogeneous.

### 3.4 Data Sources and Collection Methods

The study relied on primary data collected from the respondents themselves. Primary data was obtained by use of self-administered questionnaires.

#### a). Instruments

Given the nature of political unrest and lack of a well-functioning government faced by the government of Somalia, there was virtually no office responsible for economic affairs to capture statistics on remittance and poverty levels. It was therefore impossible to find consolidated secondary documents/statistics relating to remittance, poverty level or human development in Somalia. Consequently, there were no appointed officials knowledgeable about remittance and poverty levels for interview. This study therefore sought to rely on primary data solicited from the accessible households in Mogadishu using a questionnaire. The questionnaire was equally sought because it allowed the researcher to collect vast amounts of primary data from the respondents in a short time from a large population in a single survey at a low cost than other available instruments.

Self-administered structured questionnaire was designed and administered to obtain the required information. The study used a questionnaire developed by the researchers themselves based on the concept of each variable with both closed and open items scored on a five point Likert Scale ranging from five for strongly agree to one for strongly disagree. A total of 399 questionnaires were distributed to selected household who receive or did not receive remittance.

### 3.5 Validity and reliability of the study instrument

The questionnaire was pre-tested before administering it on the respondents. The reliability was tested using Cronbach's alpha to test if the variables used in the questionnaire consistently measured what they are supposed to measure. Alpha coefficient values of 0.70 accepted as the minimum accepted for social sciences. The reliability results are presented in table 3.1.

**Table 3.1: Reliability results**

Variable	Number of items	Cronbach's alpha value
Remittance	7	0.88
Poverty	12	0.72

*Source: Primary data from the questionnaire*

Table 3.1 show the alpha values of remittance = 0.88 and poverty = 0.72 which are higher than 0.70 recommended for social sciences meaning that all the items used to measure each variable were consistent in measuring the variable. The content Validity Index (CVI) was used to measure the relevance of the questions on the study variable using expert judgment. The CVI was arrived at using the formula: Number of items declared valid/total number of items and the results are presented in table 3.2.

**Table 3.2: Validity results**

Variable	Number of items	CVI
Remittance	7	0.90
Poverty	12	0.80

*Source: Expert judgment of the supervisors from the school of economics and applied statistics of Kampala International University.*

Table 3.2 show the CVI of remittance = 0.90, social development = 0.85 and poverty = 0.80 which are higher than 0.70 recommended for social sciences meaning that all the items used to measure each variable were relevant in measuring the variable.

### 3.6 Data Collection and Ethical consideration

The researchers were mindful of the ethics involved in research. This meant the researchers used religious leaders and local leaders who introduced them to respondents. The researcher had no concealed media to collect data, the respondents were given a free will to be part or not to be part of the study and no deception was used to lure any respondent to be part of the study. Here the researchers moved home to home to distribute the questionnaires with the help of research assistants. The questionnaires were then picked from the household after one week of their dispatch and sealed in separate envelopes for those who received remittance and those who did not receive remittance.

**3.7 Data management and analysis**

The data collected was edited, coded and later analyzed using SPSS computer program. Quantitative data was presented using chi-square tests to show any significant difference, graphs, frequencies, percentages, Pearson’s correlation coefficient to show the relationship between the study variables and regression analysis to show the impact of the independent variable on the dependent variable using 0.05 significance levels.

**IV. Findings**

This chapter presents analyses and interprets the study findings arising from the field information collected from respondents on remittance and poverty levels in Mogadishu using the questionnaire. The data is presented using graphs, frequency, percentages, correlation, regression and t- test as appropriate. The first section presents the response rate. This is followed by background information about the respondents and a presentation and analysis of the study findings in relation to the specific objectives.

**4.1 Response rate**

A total of 399 questionnaires were distributed but 282 useable questionnaires were returned making a response rate of 70.7% which according to Amin (2005) is a good representation of the sample used in the population of study. The reminders of the distributed questionnaires were either partially filled, not returned in time by the respondents or in security blocked researcher to reach the areas of the respondents.

**4.2 Background information of the respondents**

This section gives the characteristics of the respondents using cross tabulations and graphs as found appropriate. This is based on the information provided on the questionnaire by the respondents themselves.

(a).Distribution of gender by receipt of remittance

The distribution of gender by receipt of remittance was arrived at by asking the respondents to indicate their gender and if they received remittance or not to establish if there was a significant difference between gender and receipt of remittance. The results are displayed in table 4.1.

**Table 4.1: Distribution of gender by receipt of remittance among the study respondents**

			Do you receive remittance ?		Total
			Yes	No	
Gender	Male	Count	114	83	197
		% of Total	40.4%	29.4%	69.9%
	Female	Count	32	53	85
		% of Total	11.3%	18.8%	30.1%
Total	Count		146	136	282
	% of Total		41.8%	48.2%	100%

P<0.05

Chi-square = 9.724, df = 1, p = 0.003

Source: Primary data 2016

Table 4.1 shows that a total of 69.9% of the respondents were male while the female constituted 30.1%. Among the male and female respondents, a total of 51.8% received remittance while 48.2% did not receive remittance. Pearson’s chi-square statistics revealed a significant difference between gender and receipt of remittance (Chi-square = 9.724, and p = 0.003) for example among those who received remittance, a total 40.4% were male while only 11.3% were female revealing variance of 28.1%. This study finding never the less revealed that both male and female respondents received remittance.

(b)The distribution of respondents’ age group and income per day

The distribution of respondents’ age group by income per day was arrived at by asking their respondents to indicate their age group and if they earned less than 1.5 dollars per day, to establish if there was a significant difference between age and income earned. Results of this are indicated in table 4.2.

**Table 3.2: Distribution of respondents’ age group and income per day**

			My income per day is less than US\$ 1.5		Total
			Yes	No	
Age group	20-24 years	Count	-	2	2
		% of Total	-	7%	7%
	25-30years	Count	8	70	78

		% of Total	2.8%	24.8%	27.7%
	31-35years	Count	29	68	97
		% of Total	10.3%	24.1%	34.4%
	36-40years	Count	16	59	75
		% of Total	5.7	20.9	26.6
	41-45years	Count	8	20	28
		% of Total	2.8%	7.1%	9.9%
	46+ years	Count	-	2	2
		% of Total	-	7%	7%
<b>Total</b>		<b>Count</b>	<b>61</b>	<b>221</b>	<b>282</b>

P≤0.05

Chi-square = 11.766, df = 1, p = 0.038

Source: Primary data 2016

Table 4.2 shows that 34.4% of the respondents were aged between 31-35 years followed by 27.7% who were aged between 25-30 years while 26.6% who were aged between 36-40 years and 9.9% who were aged between 41-45 years. The age groups 20-24 years and 46+ years each constituted 0.7% of the total number of respondents. A total of 78.4% of the respondents earned more than US\$1.5 per day while only 21.6% earned less than US\$1.5 per day suggesting that on overall about 8/10 of the respondents earned more than US\$1.5per day. Pearson’s chi-square statistics revealed a significant difference between age group and daily income (Chi-square = 11.766 and p = 0.038) suggesting that the age group was significant determinant of the daily income of the respondent.

(c)Distribution of position in the family with receipt of remittance

The distribution of position in the family and receipt of remittance could give indicators of whether position in the family had any significant implication on receipt of remittance among the respondents. The findings are presented in table 4.3.

**Table 4.3: Distribution of position in the family and receipt of remittance**

			Do you receive Remittance		Total
			Yes	No	
Position in family	Father	Count	62	77	139
		% of Total	22.0%	27.3%	49.3%
	Mother	Count	28	53	81
		% of Total	9.9%	18.8%	28.7%
	Child	Count	34	4	38
		% of Total	12.1%	1.4%	13.5%
Guardian	Count	22	2	24	
	% of Total	7.8%	7%	8.5%	
<b>Total</b>		<b>Count</b>	<b>146</b>	<b>136</b>	<b>282</b>
		<b>Total</b>	<b>51.8%</b>	<b>48.2%</b>	<b>100.0%</b>

P≤0.05

Chi-square = 49.393, df = 1, p = 0.000

Source: Primary data 2016

Table 4.3 shows that a total of 49.3% of the respondents were fathers while 28.7% were mother. At total of 13.5% were children in the house holds while guardians constituted 8.5% of the total number of respondents. Pearson’s chi-square statistics revealed a significant difference between position in the family and receipt of remittance (Chi-square = 49.393 and p = 0.00) e.g. among those who received remittance, a majority of 22% were fathers and 12.1% were children yet mother only constituted 9.9% suggesting that the position in the family was a determinant of receipt of remittance and father and children were likely to receive remittance than mothers and guardians.

(d). Distribution of marital status with receipt of remittance

The distribution of marital status and receipt of remittance could give indicators of whether marital status had any significant implication on receipt of remittance among the respondents. The findings are presented table 4.4.

**Table 4.4: Distribution of respondents marital status and receipt of remittance**

			Do you receive remittance		Total
			Yes	No	
Marital Status	Married	Count	88	130	218
		% of Total	31.2%	46.1%	77.3%
	Single	Count	58	6	64
		% of Total	20.9%	2.1%	23.0%



	% of Total	20.6%	2.1%	22.7%
<b>Total</b>	<b>Count</b>	<b>146</b>	<b>136</b>	<b>282</b>
	<b>% of Total</b>	<b>51.8%</b>	<b>48.2%</b>	<b>100%</b>

P≤0.05

Chi-square = 50.050, df = 1, p = 0.000

Source: Primary data 2016

Table 4.4 shows that a total of 77.3% of the respondents were married while 22.7% were single. Pearson's chi-square statistics revealed a significant difference between marital status and receipt of remittance (Chi-square = 50.050 and p = 0.000) e.g. among those who received remittance, a majority 31.2% were married as compared to 20.6% suggesting that married people were more likely to receive remittance than the single ones.

#### 4.3. The relationship between remittance and Household Poverty levels in Mogadishu.

This study established the correlation between remittance and Household Poverty levels in Mogadishu Somalia through measuring income and employment using twelve items scored on a point Likert scale: (1) for strongly disagree, (2) for disagree (3) for not certain (4) for agree (5) for strongly agree. The findings on the poverty level are presented in table 4.13.

Table 4.13: Poverty level results

Poverty	SA	A	NS	DA	SDA	Total
1. The members of your house hold have a stable income	33 (11.7%)	172 (61%)	15 (5.3%)	31 (11%)	31 (11%)	282 (100%)
2. Your house hold has some cash at hand or saving	24 (8.5%)	131 (46.5%)	46 (16.3%)	40 (14.2%)	41 (14.5%)	282 (100%)
3. Your house hold has assets it can convert into reasonable cash	41 (14.5%)	156 (55.3%)	27 (9.6%)	39 (13.8%)	19 (6.7%)	282 (100%)
4. Your house hold has adequate income to spend on basic needs	67 (23.9%)	131 (46.5%)	15 (5.3%)	50 (17.5%)	19 (6.7%)	282 (100%)
5. Your house hold can finance a business investment	29 (10.3%)	67 (23.8%)	57 (20.2%)	73 (25.9%)	56 (19.5%)	282 (100%)
6. Your house hold can finance any un expected expenses	24 (8.5%)	95 (33.7%)	52 (18.4%)	72 (25.5%)	39 (13.8%)	282 (100%)
7. Your house hold has an income it can offer others in need	22 (7.8%)	98 (34.8%)	45 (16%)	61 (21.6%)	56 (19.9%)	282 (100%)
8. At least some of your house hold members are self employed	30 (10.6%)	160 (56.7%)	10 (3.5%)	46 (16.3%)	36 (12.8%)	282 (100%)
9. At least some of your house hold members are in paid employment	19 (6.7%)	151 (53.5%)	33 (11.7%)	43 (15.5%)	36 (12.8%)	282 (100%)
10. Your house hold engages in agriculture as a form of employment	34 (12.1%)	59 (20.9%)	39 (13.8%)	83 (29.4%)	67 (23.8%)	282 (100%)
11. At least some of your house hold members works in an industry ( including construction and utilities)	12 (4.3%)	35 (12.4%)	40 (14.2%)	90 (31.9%)	105 (37.2%)	282 (100%)
12. At least some of your house hold members work in the service sector (such as transport and leisure services).	37 (13.1%)	70 (24.8%)	42 (14.9%)	73 (25.9%)	60 (21.3%)	282 (100%)

Source: Primary data 2016

On income indicators of poverty, table 4.13 shows that a total majority of 72.7% of the respondents indicated that the members of their household had a stable income as opposed to 22% who disagreed and 5.3% who were not sure suggesting that on overall 7/10 household members had a stable income. Similarly, a total of 55% of the respondents agreed that their households had some cash at hand or saving while 28.7% disagreed and 16.3% were not sure suggesting that about 3/10 households did not have cash at hand to use meeting their needs and any eventualities. A total majority of 69.8% of the respondents indicated that their households had assets they could convert into reasonable cash while 20.5% disagreed and 9.6% were not sure suggesting that about 7/10 households had assets they could convert into cash.

Table 4.13 further shows that a majority of 70.4% of the respondents indicated that their household had adequate income to spend on basic needs while only 24.2% disagreed and 5.3% were not sure suggesting that about 7/10 households in Mogadishu Somalia had adequate income to meet basic needs. Only 34.1% of the respondents indicate that their households could finance a business investment while 45.4% could not and 20.2% were not sure suggesting that on overall, only 3/10 households could finance a business investment. Similarly, only 42.2% of the respondents indicated that their households could finance any un expected expenses 42.2% while 39.3% could not and 18.4% were not sure suggesting that on overall only about 4/10 households in Mogadishu could finance any unexpected expenses. A total of 42.6% of the respondents indicated

that they had an income it can offer others in need while 42.5% did not have such an income and 16% were not sure suggesting that only 4/10 households had some excess surplus income they could offer to those in need.

On employment indicator of poverty, a total of 67.3% of the respondents indicated that at least some of their household members were self-employed while 29.1% disagreed and 3.5% were not sure a finding which suggested that about 7/10 households had a member of the family who was employed. A total of 60.2% of the respondents indicated that at least some of their household members were in paid employment 60.2% while 28.3% disagreed and 11.7% were not sure suggesting that about 6/10 households had a member who was in paid employment.

Only 33% of the house hold engaged in agriculture as a form of employment while 53.2% did not engage in agriculture related form of employment suggesting that only about 3/10 household were engaged in agriculture as a form of employment. A minority of 16.7% of the household members worked in an industry (including construction and utilities) while only 69.1% did not and 14.2% were not sure suggesting that only about 2/10 of the household members worked in an industry. A total of 37.9% of the respondents indicated that atleast some of their household members work in the service sector (such as transport and leisure services) while 47.2% disagreed and 14.9% were not sure suggesting that efforts were undertaken to exploit the service sector although only 4/10 households had individuals in the service sector.

Respondents were asked to indicate their source of income and the findings are shown .

**Table 4.14: Source of Income in Household**

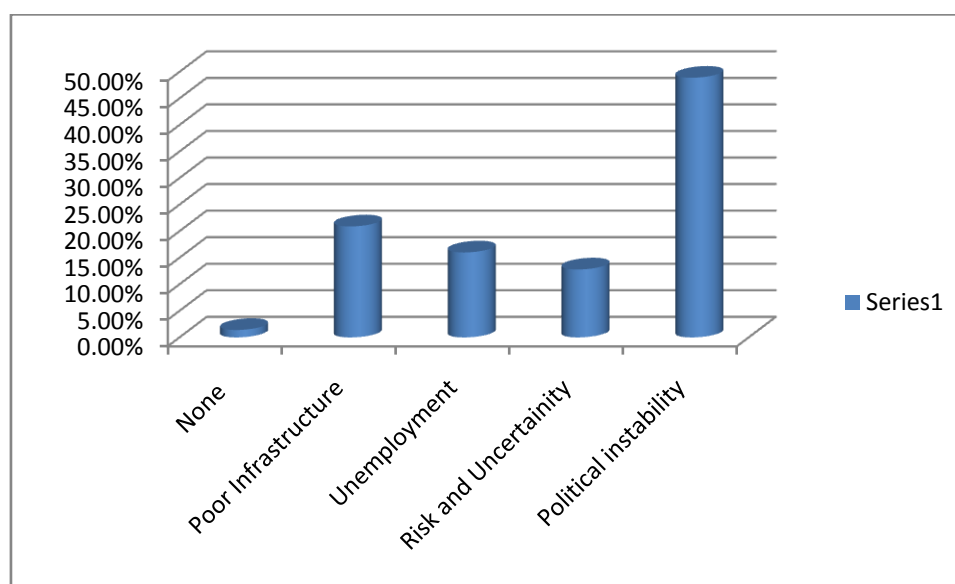
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Business	61.0	21.6	21.6	21.6
	Remittance from relatives abroad	71.0	25.2	25.2	46.8
	Service Companies	65.0	23.0	23.0	69.9
	National or International Organisations	40.0	14.2	14.2	84.0
	From Agriculture or Livestock	45.0	16.0	16.0	100.0
	Total	282.0	100.0	100.0	

Source: Primary data 2016

Table 4.14 shows various sources of income of which remittance was the most prevalent source of income in households as indicated by 25.2% of the respondents followed by service companies and business trading as indicated by 23% and 31.6% (respectively) of the total number of respondents. Agriculture was source of income for 16% of the respondents while national and international organizations were a source for income for 14.2% of the Somalis in Mogadishu.

Asked the income constraints, the graph shows the income constraints the respondents experienced.

**Figure 4.10: Income constraints**



Source: Primary data 2016

Figure 4.10 illustrates that the only 1.4% of the respondents indicated that they did not experience any income constraints. Among those who experienced income constraints, political instability was the most frequent for constraint as cited by 48.9% of the respondents and poor physical infrastructure as cited by 20.9% of the respondents. Unemployment constituted 16% of the income constraints while risk and uncertainty was contributed to 12.8% on the income constraints.

**Correlation analysis**

To establish if there was any significant relationship between remittance and poverty a correlations analysis was conducted. Pearson’s correlations statistics was used to analyze the relationship and the findings are shown in table 4.15.

**Table 4.15: Correlation matrix between remittance and poverty levels in Mogadishu Somalia**

		Remittance	Poverty
Remittance	Pearson Correlation	1.000	.466 **
	Sig. (2-tailed)	.	.000
	N	282	282
Poverty	Pearson Correlation	.466 **	1.000
	Sig. (2-tailed)	.000	.
	N	282	282

\*\* . Correlation is significant at the 0.01 level (2-tailed).

P<0.05:

Source: Primary data 2016

Table 4.15 shows Pearson’s correlation coefficient  $r = 0.466^{**}$  between remittance and poverty level suggesting that the two variables were related. The  $r = 0.466^{**}$  and significance  $p = 0.000$  revealed that the remittance had a significant relationship with poverty in Mogadishu Somalia. This had macroeconomic implications in that to improve on access on to income and employment there is needed to increase on remittance by creating an enabling environment for flow of remittance in Somalia. Further analysis of the relationship between remittance and human development element of poverty indicators of improved income and creation of employment is shown in table 4.16.

**Table 4.16: Correlation results between remittance, improved income and employment**

		Remittance	Improved income levels	Employment
Remittance	Pearson Correlation	1.000	.448 **	.264 **
	Sig. (2-tailed)	.	.000	.000
	N	282	282	282
Improved Income	Pearson Correlation	.448 **	1.000	.271 **
	Sig. (2-tailed)	.000	.	.000
	N	282	282	282
Employment	Pearson Correlation	.264 **	.271 **	1.000
	Sig. (2-tailed)	.000	.000	.
	N	282	282	282

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data 2016

Table 4.16 shows Pearson’s correlation coefficient  $r = 0.448^{**}$  and  $r = 0.264^{**}$  between remittance and income and employment respectively suggesting that remittance was related to income and employment in Mogadishu. The  $r = 0.448^{**}$  and  $r = 0.264^{**}$  with significance  $p = 0.000$  revealed that the remittance had a significant relationship with human development indicators of poverty of improved income and creation of

employment in Somalia. This had macroeconomic implications in that to improve income and employment, there was need to increase on remittance by creating an enabling environment for flow of remittance in Somalia.

**Regression results between remittance and poverty levels**

To establish the extent to which remittance impacted on poverty, a regression analysis was conducted using adjusted R<sup>2</sup> values, standardized beta values, t values and the significance measured at 0.05 confidence level of which the findings are presented in table 4.17 .

**Table 4.17:Regression results between remittance and poverty**

Predictor	Adjusted R Square	Df	Mean square	F	Sig.
	0.214	1	23.165	77.696	0.000 <sup>a</sup>
			Standardized coefficients	t	Sig.
	Adjusted R square	Std error	Beta (B)		
Constant		0.055		48.604	0.000
Remittance	0.214	0.025	0.466	8.815	0.000

- a. Predictor: (constant), Remittance
- b. Dependent Variable: Poverty

The regression model in table 4.17 shows adjusted R<sup>2</sup> value of 0.214 between remittance and poverty suggesting that remittance predicted 21.4% of the variance in poverty. Thus a unit increase in remittance will result in a 0.214 improvement in poverty in Mogadishu Somalia. The R<sup>2</sup> = 0.214, beta 0.025, t = 8.815, and significance p=0.000 suggested that remittance was a significant predictor of poverty levels indicators of access to income and employment. Thus increased access to external inflows related to money transfers, goods, payments, donations and bank cash deposits significantly contribute to improved income and employment. The regression analysis was further used to test the model between remittance and poverty indicators of improved income and creation of employment of which the results are presented in table 4.18 .

**Table 4.18: Regression results between remittance, income and employment in Mogadishu Somalia**

Predictor	Dependent	Adjusted R square	Std error	Standardized coefficients Beta (B)	t	Sig.
Remittance	Income	0.198	0.032	0.448	8.392	0.000
	Employment	0.067	0.067	0.264	4.585	0.000

- a. Predictor: (constant), Remittance
- b. Dependent Variable: income and employment

Table 4.18 shows adjusted R<sup>2</sup> values of 0.198 between remittance and income suggesting that remittance predicted 19.8% of the variance in income in Mogadishu Somalia and was a significant predictor of the variance in access to education (B =0.448, t= 8.392 and sig = 0.000). Similarly, according to table 4.18 shows adjusted R<sup>2</sup> values of 0.067 suggesting that remittance predicted 6.7% of the variance in employment and was a strong predictor of the variance in access to heal services (B =0.264, t= 4.585 and sig = 0.000). The regression results generally revealed that remittance predicted more of the variance in improved income (R<sup>2</sup> = 0. 448, B= 8.392, t= 8.392 and sig = 0.000) than employment (R<sup>2</sup> = 0.262, B =0.4.585, t= 4.585 and sig = 0.000) suggesting that remittance was used more for income than employment.

**t- Test results**

To test if there was a significant difference between those who received remittance and those who did not receive remittance and social development, an independent sample test technique was used and the results are presented.

**Table 4.19: t- test results**

Poverty	Receipt of remittance	N	Mean	Std. Deviation	F	Sig	T	df	sig 2 tailed
	Yes	146	3.81	0.52	4.089	0.044	-7.320	280	0.000
	No	136	2.41	0.61					

Gender	N	Mean	Std. Deviation	F	Sig	T	df	sig 2 tailed
Male	197	3.01	0.62	4.145	0.043	-2.106	280	0.036
Female	85	3.59	0.59					
Leave on less than \$1.5 a day	N	Mean	Std. Deviation	F	Sig	T	df	sig 2 tailed
Yes	61	2.46	0.62	10.537	0.000	-46.219	280	0.000
No	221	3.78	0.57					

Source: Primary data 2016

P ≤ 0.05

There was a significant difference (t = 7.320, F= 4.089 and p = 0.000) in the mean poverty score for those who receive remittance 3.81 and those who did not receive remittance 2.81 suggesting that the poverty levels were significantly difference among those who received remittance and those who did not receive remittance in Mogadishu Somalia with those receiving remittance tending to improve on their income and employment levels.

Taking poverty as earning less than \$1.5 a day, the t-test reveals that there was a significant difference in the poverty levels among those who earned less than \$1.5 a day and those who earned more than \$1.5 a day (t = 46.219 , F= 10.537 and p = 0.000). This finding suggested that remittance significantly contributed to improved poverty through improved income and creation of employment which lead to earning more than \$1.5adya in Mogadishu Somalia.

The study had a special interest to examine if there was any significant difference between genders and improved poverty levels and as seen in table 4.20 above, there was a significant difference (t = 2.106, F= 4.145 and p = 0.036 at 2-tailed ) in the mean for improved poverty score for male 3.01 and female 3.69 suggesting that the improvements in poverty was significantly difference within gender in Mogadishu Somalia with female respondents strongly agreeing more on improved poverty than the male. Thus remittance could have improved more of the female income and employment levels than male in Mogadishu Somalia.

The study therefore made the following conclusion on the study hypotheses:

Hypotheses	Confirmed/ disqualified	Inferential statistics
H2 <sub>A</sub> : There is a significant relationship between remittance and house hold poverty levels in Mogadishu	Confirmed	Correlation, regression and t-test results
H2 <sub>B</sub> : There is no significant relationship between remittance and house hold poverty levels in Mogadishu	Disqualified	Correlation, regression and t-test results

The study findings related to other scholars works and more specifically to Haq, (1990), who in advancement of the human development index, the UNDP has developed a more detailed indicators to include GDP (PPP constant \$); life expectancy (years), one year olds fully immunized against measles one year olds fully immunized against TB (%), physicians (per 100,000), improved, infants with low birth weight (%), improved, infant mortality rate (per 1,000), maternal mortality rate per, population with access to water (%), population with access to sanitation (%), population with access to at least one health facility (%), extreme poverty (% < \$1 per day), radios (per 1,000), telephones per1,000), TVs (per 1,000), fatality due to measles, adult literacy rate (%), combined school enrollment (%).

Nenova (2004) contends that Somalia’s “private sector has proved to be a relatively effective provider of key social services, such as water or transport” (UNDP, 2001). Transportation for freight and people connects even the smallest villages in Somalia to major urban centers, and is relatively inexpensive A state-owned electricity provider opened in Hargeisa in 2003. However, most Somali electricity is privately provided. Water needs are also supplied by private firms. Private social insurance provides a safety net financed through impressive remittances from abroad. These remittances average \$4,170 annually per household (Ahmed, 2000). Expansive domestic clan-based social networks also provide social insurance. In hard times, private welfare can contribute as much as 25-60 percent of household income (UNDP, 2001). Private healthcare is also available. Although the state of medicine in Somalia remains extremely low, medical consultations are very affordable (\$0.50/visit) (UNDP, 2001). Further, the percentage of Somalis with access to a medical facility has nearly doubled since 1989-1990 before statelessness emerged. Privately-provided public goods like “education and health care services and utility companies such as electricity and water, are also providing new income generating and employment opportunities” (UNDP 2001) that further contribute to the growing Somali economy.

In further support, a study by Leeson (2007) indicates that only two of the 18 development indicators in show a clear welfare decline under stateless: adult literacy and combined gross school enrollment. Given that foreign aid was completely financing education in Somalia pre-1991, it is not surprising that there has been

some fall in school enrollment and literacy. This is less a statement about the Somali government's ability to generate welfare enhancing outcomes for its citizens than it is a reflection of foreign aid poured into Somali education by the international development community before government collapsed. Kulaksiz and Purdekova (2006) noted that in Somalia today, 47 percent of the economically active population is employed in Somalia. Health infrastructure is dilapidated or non-existent, health care only sparsely provided and enrollment rates in schools are the lowest in the world.

Rathe (2003), concluded that whether invested or consumed, remittances have important macroeconomic impacts. They generate positive multiplier effects, while stimulating various sectors of the economy. Adelman and Taylor found that for every dollar Mexico received from migrants working abroad, the GNP rose by \$ 2.69 to 3.17 depending on whether remittances were received by urban or rural household. Recent studies analyzing links between remittances and poverty in Ghana (2005) suggest that raising remittance by 10 percent decreases the share of those in poverty by 3.5 percent and has a negligible impact on income inequality, as measured by the GINI coefficient (Adams 2005).

Adams & Page (2003) earlier study of 74 low and middle-income countries suggests that the impact of remittance flows on the poverty headcount might be smaller on average. The point estimates for the poverty headcount measure using survey mean income suggest that a 10 percent rise in share of remittances in GDP will cause a 1.6 percent decline in the poverty headcount ratio (people living on less than \$1/day). The point estimate for the poverty gap and severity of poverty (poverty gap squared) suggest that on average, a 10 percent rise in share of remittances in GDP will cause a 2% decline in depth and severity of poverty. The effects of remittances on poverty might be underestimated in the last study because in measuring remittances, the large (and unknown) amount remitted through private, unofficial channels is not included.

In support, Davis (2005), noted that in Jamaica with the steady growth of money transfers, the social and economic impact of remittances has moved beyond the sphere of households, as remittances have started to play an increasingly important role in the economic performance. The implications for the national economy and the potential multiplier effect on GDP, consumption and investment are significant. In addition to sending remittances, the Diaspora provide several other important sources of revenue and economic activity to their home countries including: Expanding the tourism industry and related economic sectors such as airlines and other forms of transportation through regular visits home; purchasing products from their countries of origin while living abroad thereby stimulating growth in 'nostalgic industries'; investing in small businesses in their home countries; and providing financial support to facilitate development and philanthropic initiatives in communities of origin.

## **V. Policy Options For Mogadishu**

This section presents the summary of findings and policy options for the government of Somalia and residents of Mogadishu.

### **5.1 Summary of findings on Remittance and poverty**

The study found that a total of 78.4% of the respondents earned more than US\$1.5perday while only 21.6% earned less than US\$1.5perday suggesting that on overall about 8/10 of the respondents earned more than US\$1.5perday. Similarly, the study found thaton overall 7/10 household members had a stable income while about 3/10 households did not have cash at hand to meeting their needs and any eventualities. A total of 7/10 households had assets they could convert into cash while 7/10 households had adequate income to meet basic needs. Only 3/10 households could finance a business investment while 4/10 households in Mogadishu could finance any unexpected expenses. A total of 4/10 households had some excess to surplus income they could offer to those in need while 7/10 households had a member of the family who was employed and 6/10 households had a member who was in paid employment. Only about 3/10 household were engaged in agriculture as a form of employment and only about 2/10 of the household members worked in an industry and only 4/10 households had individuals in the service sector.

The most prevalent source of income in households as indicated by 25.2% of the respondents followed by service companies and business trading as indicated by 23% and 31.6% (respectively) of the total number of respondents. Agriculture was source of income for 16% of the respondents while national and international organizations were a source for income for 14.2% of the Somalis in Mogadishu. Among those who experienced income constraints, political instability was the most frequent for constraint as cited by 48.9% of the respondents and poor physical infrastructure as cited by 20.9% of the respondents. Unemployment constituted 16% of the income constraints while risk and uncertainty was contributed to 12.8% on the income constraints.

Remittance had a significant relationship with poverty in Mogadishu Somalia and it predicted 21.4% of the variance in poverty suggesting that a unit improvement in remittance would result in 0.214 improvements of poverty levels. There was a significant difference between those who received remittance and those who did not

receive remittance leading to the confirmation of the hypothesis that there is a significant relationship between remittance and house hold poverty levels in Mogadishu in Somalia.

## **5.2 Conclusion**

The study made the following conclusions in relation to the study objectives:

1. Social development was significantly difference among those who received remittance and those who did not receive remittance in Mogadishu Somalia
2. Remittance had a significant relationship with social development indicators of access to education and health services.
3. The increased access to remittance in the form of external inflows related to money transfers, goods, payments, donations and bank cash deposits significantly contribute to social development indicators of access to education and health services in Mogadishu Somalia.
4. Remittance was the most prevalent source of income in households
5. Poverty levels were significantly difference among those who received remittance and those who did not receive remittance in Mogadishu Somalia
6. Remittance had a significant relationship with social poverty level indicators of income and employment.
7. The increased access to remittance in the form of external inflows related to money transfers, goods, payments, donations and bank cash deposits significantly contribute to improvements in the poverty levels indicators of improved income and creation of employment in Mogadishu Somalia.

## **5.2 Policy Recommendations**

The study makes the following recommendations:

1. To improve on access on to education and health services, there was need to increase on remittance by creating an enabling environment for flow of remittance in Somalia. This would greatly help to reduce poverty.
2. To improve on access on to income and employment there is need to increase on remittance by creating an enabling environment for flow of remittance in Somalia as it a key in poverty alleviation.
3. The government of Somalia should provide for microeconomic policies and other enabling environments relating to remittance and its utilisation in accessing education and health services. This would increase employment and productivity hence reduces poverty.
4. A policy stipulating investment of 31% of the remittance being invested in education and health will improve on social development by about one (1) unit as indicated in the regression analysis results on remittance and social development.
5. The government of Somalia should provide for microeconomic policies and other enabling environments relating to remittance and its utilisation for poverty alleviation through improvement in income and creation of employment.
6. A policy stipulating 21% of the remittance being invested in income improvement and creation of employment will improve the household poverty levels in Somalia by about one unit as indicated by the regression results of this study.

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