

The Role of Diaspora Investment in Economic Development: A Case Study of Mogadishu, Somalia

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Abstract

This paper investigates the role of diaspora investment in fostering economic development in post-conflict Somalia, focusing on Mogadishu as a case study. Employing a mixed-method approach, the study integrates both qualitative and quantitative data from structured interviews, surveys, and institutional reports. The research introduces a conceptual framework linking diaspora investment (independent variable) with economic development (dependent variable), mediated by human capital and institutional quality and moderated by access to finance.

Findings demonstrate that diaspora investment contributes significantly to job creation, entrepreneurship, innovation, and infrastructure improvement in Mogadishu. Diaspora investors have been instrumental in revitalizing key sectors such as real estate, construction, telecommunications, education, healthcare, banking, and hospitality. They also serve as channels of knowledge transfer, modern management practices, and technological diffusion. However, challenges such as political instability, weak governance systems, weak legal and regulatory frameworks, and inadequate access to formal financing mechanisms hinder the full realization of diaspora investment potential.

The study concludes that diaspora investors serve as key catalysts for post-conflict economic transformation, bridging global resources with local needs and opportunities. It recommends the establishment of robust institutional frameworks that facilitate diaspora engagement, the formulation of a national diaspora investment policy, improvements in governance and the rule of law, and the development of financial instruments tailored to the diaspora. These steps are necessary to sustain and scale the diaspora's contribution to Somalia's long-term development.

Keywords: Diaspora Investment, Economic Development, Human Capital, Institutional Quality, Access to Finance, Mogadishu, Somalia.

1. Introduction

1.1 Background of the Study

Somalia has endured more than three decades of civil conflict, state collapse, political fragmentation, and recurrent insecurity. This prolonged crisis led to the breakdown of formal state institutions, massive internal displacement, and the migration of millions of Somalis to Europe, North America, the Middle East, and other parts of Africa. This global Somali diaspora has become one of the most important socio-economic actors in the country's survival and gradual recovery.

The Somali diaspora, estimated at more than two million people, plays multiple economic roles: as senders of remittances, as investors, as employers, as entrepreneurs, and as bridges linking Somalia to global markets. Remittances alone account for more than USD 1.4 billion annually, representing about 23% of Somalia's GDP (World Bank, 2022). These remittance flows support basic consumption, education, health, and small-scale investments for households across the country.

In recent years, diaspora engagement has progressed beyond remittances and humanitarian support, evolving into more structured diaspora investment. Diaspora members have launched and co-financed investments in diverse sectors such as:

- **Real estate and construction** – modern buildings, apartments, gated communities;
- **Telecommunications and ICT** – mobile operators, internet service providers, digital platforms;

- **Education and healthcare** – private schools, universities, medical centers, clinics;
- **Banking and financial services** – Islamic banks, microfinance institutions, fintech products;
- **Trade, logistics, and hospitality** – hotels, restaurants, transport services, retail outlets.

Mogadishu, as the political capital and commercial hub of Somalia, has been at the center of this transformation. The city has witnessed an unprecedented construction boom, rapid expansion of service industries, and the rise of a new urban middle class, much of which is directly linked to diaspora capital and entrepreneurship.

1.2 Problem Statement

Despite the visible contributions of diaspora investment, its potential remains underutilized and under-structured. Somalia does not yet have:

- A coherent national diaspora investment policy;
- A specialized diaspora investment authority or agency;
- Strong, predictable legal and regulatory frameworks that protect investor rights;
- A diversified, regulated financial system that can efficiently channel diaspora savings into productive investments;
- Reliable mechanisms for risk mitigation, including political risk insurance, dispute resolution, and property rights enforcement.

Moreover, ongoing insecurity, corruption, weak institutions, and high levels of informality continue to undermine investor confidence. While many diaspora investors proceed based on patriotism, emotional ties, and social networks, the absence of clear frameworks exposes them to unnecessary risks and reduces the developmental impact of their investments.

There is also a lack of empirical studies focusing specifically on how diaspora investment contributes to economic development in Mogadishu, the mechanisms through which it operates, and the enabling or constraining role of factors such as human capital, institutional quality, and access to finance. This research seeks to address that gap.

1.3 Purpose of the Study

The main purpose of this study is to analyze the role of diaspora investment in driving economic development in Mogadishu, Somalia. Specifically, the study seeks to:

- Examine the direct contributions of diaspora investments to employment, infrastructure, productivity, and business growth;
- Investigate the indirect pathways through which diaspora investment influences economic outcomes, including human capital development and institutional improvements;
- Explore how access to finance enables or constrains diaspora investment;
- Provide practical policy recommendations for strengthening diaspora engagement and maximizing its developmental impact.

1.4 Research Objectives

1. To identify the major sectors attracting diaspora investment in Mogadishu.
2. To assess the direct impact of diaspora investment on employment, productivity, and infrastructure development.
3. To evaluate the mediating effects of human capital and institutional quality in diaspora-led economic growth.
4. To examine the moderating role of access to finance on diaspora investment outcomes.
5. To propose policy recommendations for enhancing the effectiveness, sustainability, and inclusiveness of diaspora investment in Mogadishu.

1.5 Research Questions

1. Which sectors attract the highest levels of diaspora investment in Mogadishu, and why?
2. How does diaspora investment directly contribute to economic development in terms of employment, productivity, and infrastructure?
3. What are the mediating effects of human capital and institutional quality on the relationship between diaspora investment and economic development?
4. How does access to finance moderate the outcomes of diaspora investment?

5. What policy mechanisms and institutional arrangements can strengthen the long-term developmental impact of diaspora investment?

1.6 Scope of the Study

Geographically, the study focuses on Mogadishu, as it is the main economic center and the primary destination for diaspora investors. Thematically, the study concentrates on productive investments rather than purely humanitarian remittances, though the two are often interconnected. Temporally, the research mainly covers the post-2010 period, which coincides with relative improvements in security and increased investor activity.

1.7 Significance of the Study

The study is significant for several reasons:

- For policy-makers, it provides evidence-based insights needed to design a national diaspora investment policy, legal frameworks, and institutional arrangements.
- For the private sector and diaspora networks, it offers a clearer understanding of sectoral opportunities, challenges, and best practices in Mogadishu.
- For academics and researchers, it contributes to the literature on diaspora investment, post-conflict reconstruction, and economic development in fragile states.
- For development partners and NGOs, it highlights the importance of coordinated support to both diaspora and local entrepreneurs.

2. Literature Review and Theoretical Framework

2.1 Empirical Review of Diaspora Investment

Scholars have increasingly recognized diaspora investment as a critical driver of economic development, especially in fragile and post-conflict contexts. Unlike classical foreign investors, diaspora investors typically have:

- Strong social ties and emotional commitments;
- Cultural familiarity and language advantages;
- Family networks and local information;
- Higher risk tolerance and patience.

Riddle and Brinkerhoff (2011) describe diaspora investors as “institutional entrepreneurs”, who not only inject capital but also introduce new norms, management practices, and technological systems. They often push for more transparency, professionalism, and accountability in the business environment.

Hammond et al. (2011) show that Somali diaspora capital played a vital role during the collapse of the Somali state in the early 1990s. In the absence of a functioning government, diaspora-funded businesses established basic services such as telecommunications, money transfer operators, and private education.

Ratha, Plaza, and Sirkeci (2016) find that diaspora-led investments in Sub-Saharan Africa tend to be more stable and counter-cyclical, meaning they often continue even during periods of economic or political crisis. This resilience makes diaspora capital particularly important for fragile states.

The OECD (2023) notes that diaspora engagement complements traditional foreign direct investment (FDI) by fostering local ownership, long-term commitment, and social trust. Diaspora investors often play a bridging role, linking their home countries with international markets and institutions.

2.2 Global Perspective on Diaspora Investment

In countries such as India, China, Israel, Ghana, and Ethiopia, diaspora populations have been instrumental in:

- Building ICT and technology hubs;
- Establishing manufacturing zones;
- Driving innovation ecosystems;
- Developing real estate and financial sectors.

For instance, the Indian diaspora contributed to the development of Bangalore as an IT hub, while the Chinese diaspora played a strategic role in special economic zones and export-oriented industries. In many cases, diaspora investment has been associated with technology transfer, skills upgrading, and export diversification.

A common feature in successful cases is the presence of enabling policies and targeted institutions. These often include:

- Diaspora investment promotion agencies;
- Diaspora bonds and financial instruments;
- Easy business registration and property registration processes;
- Incentive packages and tax breaks;
- Dual citizenship or flexible residency laws.

2.3 The Somali Context

Somalia presents a unique case where the diaspora was not just a complement to the state but often a substitute for it during periods of complete state failure. Diaspora-supported businesses built much of the current private sector infrastructure.

Examples include:

- Dahabshiil – originally a remittance company, now a regional financial group;
- Hormuud Telecom – a leading telecommunications operator linked with diaspora capital and leadership;
- Amin Ambulance – an emergency medical service in Mogadishu, supported significantly by diaspora contributions;
- Numerous private universities, schools, clinics, pharmacies, and NGOs.

Despite these successes, diaspora investors operate in an environment characterized by:

- Weak property rights and incomplete land records;
- Limited enforcement of contracts and commercial laws;
- Inconsistent tax regimes;
- Security risks and political uncertainty;
- A largely informal economy.

These structural barriers reduce the full development potential of diaspora-led investments and highlight the need for a stronger governance and regulatory framework.

2.4 Theoretical Framework

To better understand the complex relationship between diaspora investment and economic development, this study draws on several complementary theories:

2.4.1 Transnational Entrepreneurship Theory (Drori et al., 2009)

Transnational entrepreneurship theory explains how migrants and diaspora individuals leverage their dual embeddedness simultaneously connected to their host and home countries to create business opportunities. They mobilize resources such as knowledge, networks, and capital across borders. Somali diaspora entrepreneurs, living in places like London, Minneapolis, Dubai, or Nairobi, draw on global experiences while investing in Mogadishu.

2.4.2 Human Capital Theory (Becker, 1964)

Human capital theory emphasizes that investments in education, skills, and training increase workers' productivity and thus contribute to economic growth. Diaspora investors contribute to human capital by introducing modern management techniques, training employees, and sometimes establishing schools and universities. They may also facilitate the return of skilled professionals to Somalia.

2.4.3 Institutional Economics Theory (North, 1990)

Institutional economics focuses on the role of institutions—formal and informal rules, norms, and organizations in shaping economic performance. Effective institutions reduce transaction costs, protect property rights, and create predictable environments. In Somalia, diaspora investors operate in a context of institutional weakness, which affects their investment decisions. Their interaction with local institutions can either reinforce or contribute to reform.

2.4.4 Resource-Based View (Barney, 1991)

The resource-based view of the firm suggests that sustained competitive advantage arises from unique, valuable, and hard-to-imitate resources and capabilities. Diaspora investors possess unique resources such as:

- International exposure;
- Access to foreign capital;
- Knowledge of global standards;
- Cross-cultural competencies;
- Transnational networks.

These strategic resources enable diaspora firms to outperform purely local competitors in certain sectors, especially ICT, finance, and modern services.

2.4.5 Network Theory

Network theory emphasizes the importance of social, professional, and business networks in facilitating exchanges, trust, and collaboration. Diaspora investment is often embedded in social networks that connect families, clans, business partners, and communities. These networks reduce information asymmetry and transaction costs, enabling investments even in the absence of strong formal institutions.

2.5 Conceptual Framework

The conceptual framework for this study posits that:

- Diaspora Investment (independent variable) directly influences Economic Development (dependent variable) through job creation, entrepreneurship, infrastructure development, and productivity gains.
- Human Capital (education, skills, innovation) and Institutional Quality (governance, rule of law, stability, regulatory frameworks) act as mediating variables, shaping how effectively diaspora investments translate into broader development.
- Access to Finance acts as a moderating variable, strengthening or weakening the relationship between diaspora investment and economic outcomes. When access to finance is high, the positive impact of diaspora investment is amplified; when it is constrained, investment projects remain small or informal.

Model Summary:

- Independent Variable: Diaspora Investment
- Mediating Variables: Human Capital, Institutional Quality
- Moderating Variable: Access to Finance
- Dependent Variable: Economic Development

3. Methodology

3.1 Research Design

The study adopts a mixed-method design combining quantitative and qualitative approaches. This design is suitable because diaspora investment is both a measurable economic phenomenon (e.g., number of firms, jobs, capital flows) and a social process shaped by networks, perceptions, trust, and institutional experiences.

- The quantitative component captures patterns, correlations, and relationships between variables.
- The qualitative component provides depth, context, and explanations behind the numbers.

3.2 Population and Sampling

The target population included:

- Diaspora investors with active investments in Mogadishu;
- Local entrepreneurs interacting with diaspora investors;
- Government officials in relevant ministries (finance, planning, investment, commerce);
- Representatives from financial institutions, chambers of commerce, or business associations.

A **purposive sample of 100 respondents** was selected:

- 60 diaspora investors;
- 20 government officials;
- 20 local business leaders.

This sampling ensured representation across key sectors such as construction, ICT, education, healthcare, and trade.

3.3 Data Collection Methods

3.3.1 Primary Data

Primary data were collected using:

- **Structured questionnaires** – administered to diaspora investors and local business owners to gather quantitative data on investments, employment, sectors, capital amounts, sources of finance, and perceptions of the business environment.
- **Semi-structured interviews** – conducted with selected diaspora investors, government officials, and financial sector actors to gain deeper qualitative insights into challenges, opportunities, and policy needs.

3.3.2 Secondary Data

Secondary data were obtained from:

- Central Bank of Somalia reports;
- World Bank and IMF economic updates on Somalia;
- IOM and UNDP documents;
- Academic journal articles and books on diaspora investment and Somali economy;
- Policy documents, if available, on investment or diaspora engagement.

3.4 Data Analysis

Quantitative data were coded and analyzed using SPSS software. The main techniques used were:

- **Descriptive statistics** (frequencies, percentages, means) to describe respondent characteristics and distribution of investments;
- **Correlation analysis** to examine the relationships between diaspora investment and variables such as employment, human capital, institutional quality, and access to finance;
- **Regression analysis** to test the strength and significance of diaspora investment in explaining variations in indicators of economic development.

Qualitative data from interviews were transcribed and analyzed thematically using NVivo software. Key themes such as “security”, “trust”, “institutional barriers”, “human capital”, and “finance” were identified.

4. Results and Analysis

4.1 Correlation Analysis of Key Variables

Table 1: Correlation Analysis of Key Variables

Variable Relationship	Effect Type	Correlation (r)
Diaspora Investment → Employment	Direct	0.84
Diaspora Investment → Human Capital	Indirect	0.77
Human Capital → Economic Growth	Mediating	0.72
Institutional Quality → Economic Growth	Mediating	0.68
Access to Finance → Investment Outcomes	Moderating	0.65

Interpretation:

- There is a **strong positive correlation (r = 0.84)** between diaspora investment and employment creation, indicating that higher levels of diaspora investment are associated with higher levels of job creation.
- The correlation between diaspora investment and human capital (r = 0.77) suggests that diaspora investors significantly contribute to skills development, knowledge transfer, and training.

- Human capital ($r = 0.72$) and institutional quality ($r = 0.68$) show meaningful positive correlations with economic growth, supporting their role as mediating variables.
- Access to finance ($r = 0.65$) positively correlates with investment outcomes, confirming its role as a moderating factor: where finance is accessible, diaspora investments are more likely to expand and succeed.

4.2 Sectoral Distribution of Diaspora Investment in Mogadishu

Survey data indicated that diaspora investments are concentrated in the following sectors (approximate shares):

- Real Estate and Construction – 25%
- Telecommunications and ICT – 15%
- Retail and Wholesale Trade – 12%
- Education (schools, universities, training centers) – 10%
- Healthcare (hospitals, clinics, pharmacies) – 10%
- Hospitality (restaurants, hotels, cafés) – 8%
- Banking and Financial Services – 7%
- Transport and Logistics – 6%
- Other sectors – 7%

This distribution shows a strong bias toward urban services, infrastructure, and trade, reflecting both the needs of Mogadishu’s population and the comparative advantages of diaspora investors.

4.3 Employment Creation

Diaspora-funded businesses reported employing substantial numbers of workers. Many firms grew from small enterprises to medium or large organizations:

- A number of diaspora-backed companies reported employing between 20 and 200 staff;
- Larger firms in telecommunications, construction, and finance employed several hundred people, including direct and indirect employment such as contractors, agents, and vendors.

Qualitative interviews confirmed that diaspora investment is perceived as a major source of formal and semi-formal employment in Mogadishu, particularly for youth and graduates.

4.4 Human Capital Effects

Diaspora investors were found to contribute to human capital development through:

- On-the-job training in areas such as ICT, accounting, customer service, and project management;
- Sponsoring staff for short courses, certifications, or training programs;
- Introducing performance management systems and HR policies;
- Strengthening work ethics, time management, and service quality standards.

Many respondents noted that working in diaspora-owned or diaspora-influenced firms is considered a “school” where employees learn modern business practices.

4.5 Institutional Quality and Governance

Respondents widely acknowledged that poor governance, corruption, and the absence of strong legal systems pose significant challenges. However, some diaspora investors have used their projects to advocate for better practices:

- Demanding written contracts and clear land documents;
- Lobbying local authorities for improved regulations and urban planning;
- Supporting business associations that collectively negotiate with public institutions.

While diaspora investments alone cannot reform institutions, they can create pressure and demand for better governance.

4.6 Access to Finance

Access to finance emerged as a critical factor:

- Many diaspora investors rely on personal savings or informal family networks rather than bank loans.
- Local entrepreneurs without diaspora connections face even more severe access constraints.

- The absence of long-term financing instruments limits the scale of investment and the ability to undertake large infrastructure or industrial projects.

Respondents emphasized the need for Islamic-compliant financial products, diaspora bonds, and stronger microfinance and SME lending.

5. Discussion and Unique Challenges

5.1 Direct Contributions of Diaspora Investment

The findings confirm that diaspora investment exerts both direct and indirect effects on Mogadishu's economy.

Direct contributions include:

1. **Employment Creation:** Diaspora businesses offer formal jobs with relatively better wages and work conditions, combating unemployment and underemployment.
2. **Infrastructure Development:** Real estate and construction projects have modernized parts of Mogadishu's urban landscape, improving commercial and residential infrastructure.
3. **Entrepreneurship and Business Growth:** Diaspora investors launch new enterprises and inspire local entrepreneurs to emulate their models.
4. **Technology Transfer:** Modern ICT, payment systems, customer-management software, and digital platforms introduced by diaspora firms raise the overall technological capacity.
5. **Market Expansion:** Diaspora networks help create export and import channels, integrating Mogadishu into regional and global value chains.

5.2 Indirect Contributions

Indirectly, diaspora investment contributes to:

- **Human Capital Formation:** Through training, mentoring, and exposure to international practices.
- **Institutional Evolution:** By increasing demand for law, order, contracts, and effective regulation.
- **Social Stability:** By creating jobs and income opportunities, diaspora investments can reduce idleness and vulnerability among youth.
- **Urban Renewal:** Reconstructed neighborhoods, roads, and buildings change perceptions of Mogadishu from a war-torn city to a growing commercial center.

5.3 Challenges Facing Diaspora Investors

Despite these contributions, several challenges persist:

5.3.1 Insecurity and Political Instability

The lack of consistent peace, occasional terror attacks, and unresolved political tensions undermine investor confidence. Investors factor in security risks when deciding on project size, location, and duration.

5.3.2 Weak Legal and Regulatory Frameworks

- Absence or weak enforcement of property rights;
- Disputes over land ownership;
- Inconsistent application of taxes and regulations across districts;
- Limited availability of commercial courts and arbitration mechanisms.

These issues make long-term investments, such as factories or industrial zones, particularly risky.

5.3.3 Financial Constraints

- Limited access to long-term credit;
- Lack of collateral acceptable to banks;
- High cost of borrowing where credit is available.
- Limited financial inclusion, especially for SMEs.

Without sufficient financing, diaspora investments remain small or medium-scale and may cluster in low-capital sectors.

5.3.4 Institutional Fragility and Corruption

Bureaucratic inefficiencies, rent-seeking behavior, and lack of transparency in some public offices increase the cost and complexity of doing business. This environment discourages some diaspora members who might otherwise be willing to invest.

5.3.5 Social Expectations and Pressures

Diaspora investors also face social pressures from relatives and community members who expect employment, financial support, or partnership. Managing these expectations can sometimes strain business sustainability.

6. Conclusion and Recommendations

6.1 Conclusion

The study concludes that diaspora investment is an essential pillar of Somalia's post-conflict reconstruction and long-term development, especially in Mogadishu. It has:

- Strengthened local economies and contributed to GDP growth;
- Created thousands of jobs and expanded the private sector;
- Introduced technology, management skills, and innovation;
- Supported the revival and modernization of key urban infrastructure.

However, the potential transformative power of diaspora investment is not yet fully realized. Political instability, weak governance, inadequate legal frameworks, and poor access to finance constrain investment volume, scope, and duration. The mediating role of human capital and institutional quality is clear; where skills and institutions are stronger, the developmental impact of diaspora investment is higher. Access to finance clearly moderates outcomes, amplifying or weakening the effect of investment on growth.

For diaspora investment to reach its full potential as a driver of inclusive and sustainable development, Somalia must implement deliberate and coherent policy measures.

6.2 Policy Recommendations

6.2.1 Develop a National Diaspora Investment Policy

The Federal Government of Somalia should formulate and adopt a National Diaspora Investment Policy that:

- Clearly defines the role of diaspora in development;
- Sets out incentives and guarantees for investors;
- Facilitates access to information on investment opportunities;
- Promotes responsible and inclusive investments.

6.2.2 Establish a Somali Diaspora Investment Authority

A dedicated Somali Diaspora Investment Authority (SDIA) should be established to:

- Serve as a one-stop center for diaspora investors;
- Provide guidance on laws, procedures, and sectors;
- Coordinate between ministries, municipalities, and private sector;
- Maintain a database of diaspora investors and projects;
- Organize investment forums and roadshows with diaspora communities abroad.

6.2.3 Enhance Access to Finance

To strengthen the moderating role of access to finance, the following are recommended:

- Design diaspora bonds and investment funds to mobilize savings;
- Strengthen Islamic-compliant finance products for SMEs;
- Support credit guarantee schemes to reduce the risk for banks' lending to diaspora-backed projects;
- Promote fintech and digital financial platforms to ease cross-border transactions.

6.2.4 Strengthen Human Capital Development

Policies should:

- Support vocational and technical training institutions closely linked to labor market demands;
- Encourage diaspora professionals to participate in "knowledge transfer" programs;
- Incentivize businesses that invest heavily in training and capacity-building;

- Integrate entrepreneurship education into universities and TVET curricula.

6.2.5 Improve Governance, Legal Systems, and Business Environment

To improve institutional quality, the government should:

- Strengthen land registration and property rights systems;
- Enhance commercial law, contract enforcement, and dispute resolution;
- Reduce bureaucratic red tape and simplify licensing processes;
- Promote anti-corruption measures and transparency in public offices;
- Support public-private dialogue mechanisms involving diaspora investors.

6.3 Recommendations for Future Research

Future studies could:

- Conduct longitudinal research to track diaspora investments over time;
- Compare diaspora investment impacts across different Somali cities and regions;
- Investigate gender dimensions of diaspora investment (e.g., women investors);
- Explore the role of digital platforms and fintech in facilitating diaspora investments.

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