CHATHAM HOUSE

briefing paper

Somali Investment in Kenya

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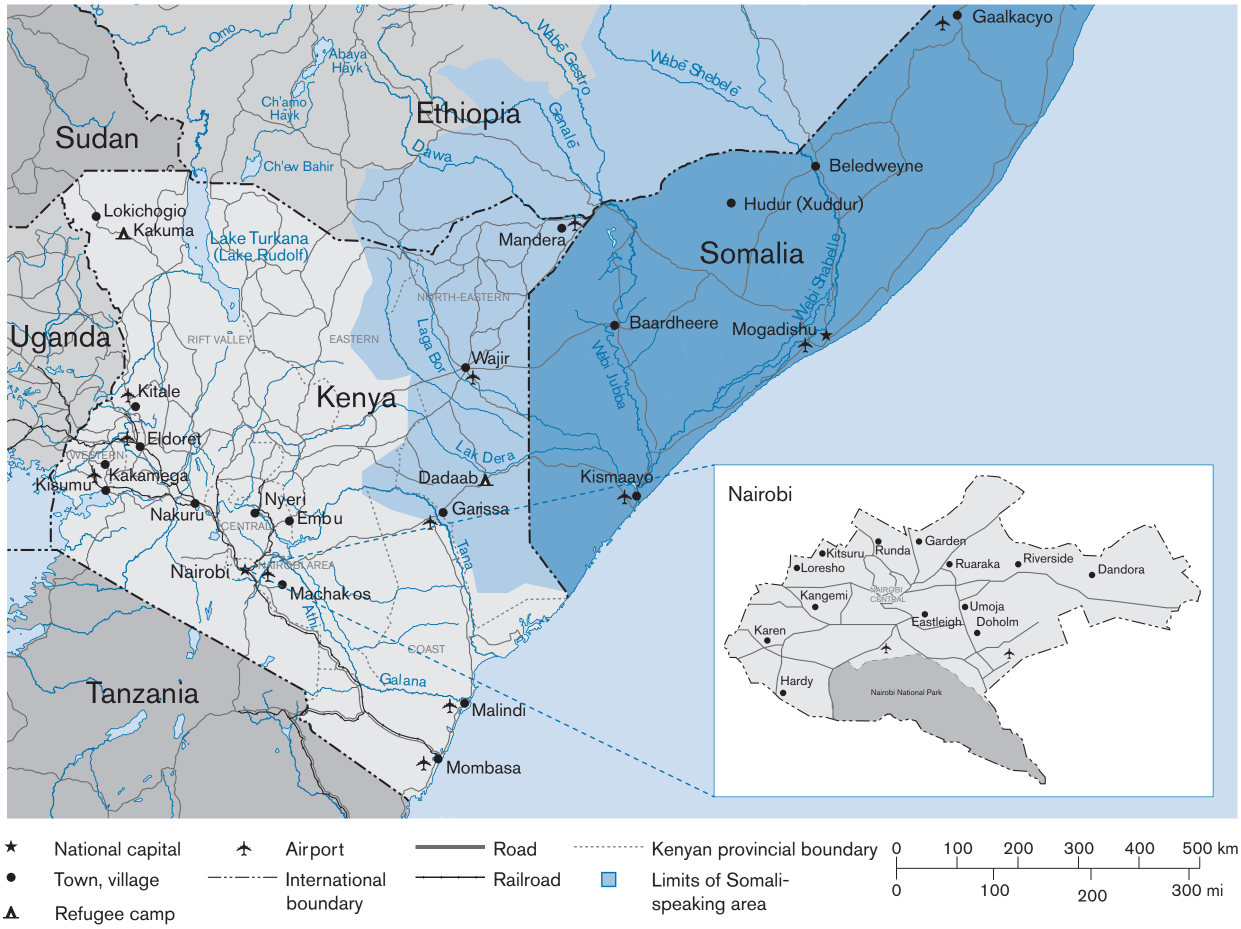
Africa Programme | March 2011 | AFP BP 2011/02

Summary points

- Despite the collapse of the formal economy and of central government in Somalia, a remarkably resilient 'parallel' economy has emerged. Based on traditional clan relationships, a lack of bureaucracy and well-established channels for remittance payments from the diaspora, this model has travelled with Somali émigrés to Kenya.
- However, the success of Somali business has caused tension with other communities in Kenya, leading to widespread, but overblown, accusations of links to piracy and criminal activity.
- Some businesses that began in the informal sector are making the transition to formal enterprise. Kenyan authorities should seek to encourage this with an enabling regulatory environment. Success will bring increased tax revenue and allow regulation to prevent subversive activities.
- The Somali community's success belies the highly risky nature of the parallel market. Within the informal sector, there are few safeguards for either investors or consumers, and many businesses have suffered catastrophic losses because of this.
- Somali trade centred on the Nairobi suburb of Eastleigh has flourished, providing goods and services to local and regional consumers at prices well below the market average. Its impact – felt far beyond Kenya and Somalia to the Gulf states and Central Africa – demonstrates the ability of some businesses to thrive despite conflict in Somalia.

Kenya and its Neighbours



Source: United Nations Horn of Africa Map, No 4188 Rev. 2, May 2007.

The boundaries and names shown and designations used on this map do not imply endorsement or acceptance by the author or Chatham House.

Introduction

In the course of the last 20 years, conflict in Somalia has caused many Somalis to become refugees in Kenya. They have become established in various Kenyan towns and cities and are now engaged in a range of business activities. The success of Somali business in Kenya has also attracted new investment from Somalis in the Middle East and further afield who have joined in and set up businesses there.[1]

Most Somali business activities in Kenya are centred in Nairobi's Eastleigh neighbourhood. In some respects the vigorous unregulated economy that flourished inside Somalia after the collapse of the state there has been exported to Kenya. The economic transformation of Eastleigh has brought a new level of competition to Nairobi, substantially reducing the cost of goods and services. Growing Somali investment in Nairobi has also attracted banks and other service-providers, demonstrating that urban refugees are not necessarily a burden on the state and can be an economic asset.

However, the rapid expansion of Eastleigh has created tensions between the Somali and other Kenyan communities. The loss of affordable housing has pushed many long-term inhabitants out of Eastleigh into neighbouring slums, and raised rents for those who can afford to remain. The largely informal economic activities of Somalis have also had detrimental implications for mid-sized shopkeepers in general and Asian businesses in particular, creating noticeable friction between the Asian and Somali business communities.

Despite the many positive consequences of Somali investment, there are also examples of businesses run on fraudulent lines. The boundaries between business, politics and religion are ill-defined and there are also instances of individuals or groups who use their financial success to support radical Islamist groups in Somalia.

This paper charts the rise of Somali entrepreneurship in Kenya in the context of economic breakdown in Somalia and discusses its implications for the wider prospects of regional cooperation. It draws on discussions with members of the Somali community in Nairobi. A number of prominent business individuals and petty traders were interviewed about their current business dealings, future plans and predictions.

The colonial background

The fact that, unlike many African states, most of Somalia's citizens have a common language, religion and culture has not led to lasting stability. European colonization left Somali-inhabited territory divided into five colonies that crossed clan boundaries and disrupted centuries-old seasonal migration patterns. As a result of the colonial legacy the North Eastern Province (NEP) of Kenya is inhabited by Somali people who maintain close social and economic ties across the border.[2]

> 'Growing Somali investment in Nairobi has attracted banks and other service-providers, demonstrating that urban refugees are not necessarily a burden on the state and can be an economic asset'

The outer homogeneity of the Somali nation masks the existence of a wide network of tribal, family or clan allegiances. Although clan-based customary law (*heer*) was weakened by European colonial rule, it is still common for a group of sub-clans that belong to same clan (ancestor) to have a contractual alliance that joins them together (*diya* group) in payment and receipt of damages to or from another group. Every Somali is born into an insurance group based on lineage to a common great-grandfather (sub-clan).

1 In this paper Somalian refers to citizens of the Somali republic and Somalis refers to people of Somali ethnicity regardless of citizenship or country of origin, Kenyan-Somali is used to designate Kenyan citizens of Somali ethnicity.

2 Robert Draper, 'Shattered Somalia', *National Geographic Magazine* (September 2009), http://ngm.nationalgeographic.com/2009/09/somalia/draper-text.

Colonization placed access to power and pastoral resources – long regulated by Somalia's many widely dispersed clan leaders – under the control of the centralized colonial state.[3] The political parties that emerged after independence tended to reflect clan loyalties, and politicization of the clan structure for personal gains soon became the norm. The newly established state of Somalia quickly turned into a 'predatory state' in which members of the government enriched themselves by plundering the national resources.

Collapse of the formal Somali economy

Today the economy of Somalia operates without government regulation or protection. It forms part of a business network that involves many Somalis outside the country, operating across borders and continents but held together by extensive ties of family and trust. The foundations of this dispersed and entrepreneurial activity were laid in the years before 1990.

Under the dictatorship of President Mohamed Siyaad Barre the private sector was hampered by political patronage, which was the easiest way to get access to resources controlled by the state.[4] In the 1980s government-run services such as ports, airports and customs were operated in ways that favoured those close to government, discriminating against individuals perceived as enemies.[5] The government's poor economic management and the decay of public institutions resulted in the emergence of a vibrant parallel black market. The official economy and the parallel economy were not wholly separate entities, since many prominent bureaucrats and traders in the former also participated in the latter to advance their interests. Additionally, clanism and political mobilization were increasingly integrated with economic networks.[6] As public-sector institutions moved closer to collapse, the informal sector expanded to fill the gap and private-sector activity extended into traditional public-sector areas, despite a hostile economic and political environment.[7]

'The end of the Barre regime in many senses liberated Somalian business people and helped to bring about a remarkable development in certain industries … However, the absence of government meant that Somalian businesses lacked a champion on the international scene and needed a measure of government protection'

By 1990 the formal Somali economy was in shambles. The corrupt and nepotistic nature of Siyaad Barre's regime left a legacy of deep suspicion and mistrust among the Somali business class towards any state or government over which they have no control.[8] This mindset is still visible today in the important role business people play in bolstering or undermining governments and armed groups in Somalia.

In 1991 Siyaad Barre fled and the country plunged into one of the most destructive civil wars in recent African history. The parallel economy that had emerged in the 1980s grew stronger and developed into a functioning economic system without any regulation from state institutions. Stateless Somalia provided ample opportunities for business elites to trade, invest

3 Ibid.

4 UNDP, *Human Development Report: Somalia* (2001), http://hdr.undp.org/en/reports/national/arabstates/somalia/Somalia_2001_en.pdf.

5 Peter Halden, 'Somalia: Failed State or Nascent States-System?' Swedish Defence Research Agency (October 2008), http://www.foi.se/upload/projects/Africa/FOI-R--2598.pdf.

6 H. Adam, 'Somalia: Militarism, Warlordism or Democracy?', *Review of African Political Economy*, 19 (54), 1992: 11–26.

7 J. Mubarak, 'The "Hidden Hand" Behind the Resilience of the Stateless Economy of Somalia', *World Development*, 25(12), 1997: 2027–41.

8 A. Samater, 'Under Development in Somalia: Dictatorship without Hegemony', *Africa Today,* 32(3), 1985: 23–40.

and operate in a domestic market completely free of price controls and state regulations. It is important to note, however, that business communities in most southern regions and in Mogadishu in particular had to seek protection and pay warlords or establish their own militia. In certain situations, this security cost could offset any savings resulting from the free market. Some studies suggest that despite the substantial problems in Somalia, some indicators of living standards, including the infant mortality rate (down from 152 to 114.89 per thousand) and access to sanitation (up from 18 to 26 per cent), have improved since the collapse of government.[9]

The 1990s saw the emergence of major new businesses and services, dominated by remittance/money transfer companies and telecommunications. However, the fundamentals of the economy did not radically change and nomads and semi-pastoralists still made up a large proportion of the population. The traditional Somalian economy remained concentrated on the livestock/agriculture sector, which normally accounted for about 40 per cent of GDP and more than 50 per cent of export earnings.[10] The livestock trade is particularly susceptible to market shocks and the subsequent import ban on livestock from Somalia by the Gulf states (notably Saudi Arabia) had a significant economic impact, exposing the vulnerability of Somalia's largely undiversified economy.[11]

The end of the Siyaad Barre regime in many senses liberated Somalian business people and helped to bring about a remarkable development in certain industries formerly dominated by the public sector. However, the absence of government meant that Somalian businesses lacked a champion on the international scene and needed a measure of government protection. So although success stories such as telecommunications and the financial sector (*hawala*) exist, this does not disguise the fact that economic activity in Somalia for many sectors (agriculture, transport, fishing, petty traders etc.) was better before the war.

Somalis in Kenya and the refugee influx

Kenya has a substantial indigenous Somali population of its own, concentrated mainly in the North Eastern Province. The population of the NEP more than doubled between 1989 and 1999, from 371,391 to 962,143.[12] The 2009 census puts the population of the NEP at 2,310,757, a sixfold increase since 1989.[13] Historically, the province suffered political, social and economic marginalization in addition to droughts and famine.[14] Its people depend on livestock production, but this is under constant strain as a source of livelihood owing to the harsh climatic conditions, poor infrastructure and lack of proper livestock markets. All social indicators show clearly that development in NEP has lagged behind that in other provinces in Kenya.[15]

The Kenyan-Somali population was boosted by people who came from Somalia as colonial employees or independent traders and settled in Kenya.[16] Later, more Somalians fleeing Siyaad Barre's regime in the 1970s and 1980s made the country their home. Most of them became Kenyan citizens. Before the current crisis, the official (although unlikely to be the total) number of ethnic Somalis living in Nairobi and Mombasa was around 13,000, according to the 1989 census.[17]

When the civil war broke out in Somalia in 1991 and the state collapsed, approximately 300,000 refugees sought safety in Kenya. Initially they were settled in

9 UNDP, *Human Development Report. Somalia* (2001); P. Leeson, 'Better Off Stateless: Somalia Before and After State Collapse', Working Paper (2006), West Virginia University.

10 *CIA World Factbook* (2010), https://www.cia.gov/library/publications/the-world-factbook/geos/so.html.

11 Benjamin Powel, Ryan Ford and Alex Nowrasteh, 'Somalia After State Collapse: Chaos or Improvement?', The Independent Institute, Working Paper 64 (November 2006), http://www.observatori.org/paises/pais_74/documentos/64_somalia.pdf.

12 Kenya Central Bureau of Statistics, *Analytical Report on Migration* (1989, 1999 and 2009).

13 Kenyan National Bureau of Statistics, *Kenya 2009 Population and Housing Census – Highlights* (2010).

14 Ibid.

15 UNDP, *5th Kenya Human Development Report* (2006).

16 Anna Lindley, 'Protracted Displacement and Remittances: The Case of Somalis in Eastleigh, Nairobi', UNHCR, 143 (2007).

17 Kenya Central Bureau of Statistics, *Analytical Report on Migration* (1989).

refugee camps. The United Nations High Commissioner for Refugees (UNHCR) supported five camps, each catering for more than 50,000 Somali refugees along the Kenyan coast.[18] Much of the population in these camps came from the Benadir coastal towns in Somalia and had been actively engaged in businesses there. In 1992 three more camps, designed to accommodate 90,000 refugees, were established near Dadaab in the NEP, about 100 km from the Somali border. By 1994 the refugee numbers had stabilized at just under 300,000.[19] In 1995, at the request of the Kenyan government, UNHCR closed the coastal camps. The remaining refugee population was transferred to Dadaab or to Kakuma, another UNHCR camp situated nearly 2,000 km from Dadaab near the Kenyan border with Sudan.[20]

At the end of 2005, the population of Dadaab's camps stood at 127,000. In August 2008, and despite a costly transfer programme to Kakuma, UNHCR had to declare all three camps full and cease registration. By February 2009 the number had almost doubled to 255,000. Human Rights Watch investigations during this period suggest that large numbers of refugees who fled Somalia at this time declared themselves 'economically self-sufficient' and opted to fend for themselves in Nairobi rather than seek the protection available in the UNHCR camps.[21]

Thus, despite the Kenyan government's attempts to contain Somali refugees in the remote camps, many managed to move into cities and towns such as Nairobi, Garissa, Mombassa, Eldoret and Kisumu. Many refugees were eventually granted citizenship, although owing to political sensitivities their numbers are not publicly available. The Eastleigh neighbourhood of Nairobi, located east of the city's central business district (see map on p. 2), became the most popular destination for both Kenyan-Somalis and refugees from Somalia.

Somali investment: the rise of Eastleigh

Most Somalis in Kenya (both Kenyan-Somalis and Somalians) are poor, but there are also wealthy individuals, mainly from Somalia, who came with cash readily available (either in hand or in foreign bank accounts) for large investments. Two factors characterize their business activities in Kenya. First, they operate largely outside the formal economy of the country. Secondly, they rely heavily, but not exclusively, on clan or kinship networks of trust in their business dealings. The limited business activities that occur in the formal sector are in hotels, real estate and transport industries. Investments and businesses run by Somalis in Kenya appear to be vulnerable because of their informal nature and situation in a largely unregulated and uninsured market. It could be argued that the unregulated parallel economy that prevailed after the formal economy crumbled in Somalia has been partially copied in or exported to Kenya.

> 'Many entrepreneurs who began in the informal economy have expanded their businesses, turning them into contemporary shopping malls, operating inside the formal economy'

Once a predominantly Asian residential estate, Eastleigh has become the centre of Somali entrepreneurship in Kenya and is popularly referred to as 'Little Mogadishu'. After independence in 1964 Asians began to move from Eastleigh to wealthier areas.[22] By the 1970s, the area was largely taken over by Kenyan Kikuyu landlords,

18 UNHCR, *The State of the World's Refugees: In Search of Solutions* (Oxford University Press, 1995).

19 Awa M. Abdi, 'In Limbo: Dependency, Insecurity, and Identity Amongst Somali Refugees in Dadaab Camps', *Refuge: Canada's periodical on refugees*, 22(2), 2005: 6–14. http://pi.library.yorku.ca/ojs/index.php/refuge/article/viewFile/21328/19999.

20 Ibid.

21 Human Rights Watch, 'From Horror to Hopelessness' (2009). http://www.hrw.org/en/reports/2009/03/29/horror-hopelessness-0.

22 Elizabeth Campbell, 'Formalizing the Informal Economy: Somali Refugee and Migrant Trade Networks in Nairobi', *Global Migration Perspectives*, 47 (2005).

Box 1: Shopping malls

Eastleigh mall is an example of a recently developed mall. It contains a hotel, a bank, restaurants, cafeterias, a supermarket, a gym, a college, a travel agent, an FM radio station and a number of shops selling products from all over the world at significantly reduced prices. Another example is Amal Shopping Plaza, built in 2003. This four-storey mall has more than 160 stores and is one of the most developed and sophisticated in Eastleigh. The individual shop units are filled from floor to ceiling but lack the functional separation between storage and shopping. Shops on the first floor sell high-quality clothing. Electronic goods such as radios, mobile phones, TVs and hi-fi systems are sold on the second floor where stores are larger. Service-oriented businesses including *hawala*, travel agents and a clinic are located on the third floor. The offices of Amal's general management are located on the fourth floor, separated from the main shopping centre.

but there was already a significant Somali community established in Eastleigh before the first major influx of refugees from Somalia in 1991. Kikuyus are now selling their properties to Somalis. And today Somalis appear to own the majority of the properties in the neighbourhood and comprise the majority of the tenants.[23]

Somalis, refugees in particular, have invested and transformed the suburb into a bustling commercial centre. They have bought up residential blocks and rapidly converted them into modern retail outlets. Indeed, many Somalians in Western and Middle Eastern countries have been attracted by the business opportunities in Kenya. Most of the investment centres on family-owned businesses but it also extends to real estate. This funding from the wider Somali diaspora has been crucial to the expansion of Eastleigh. The capital investments for small enterprises vary but typically involve sums of US$3–5 million. Commercial-mall companies such as Amal, Baraka Bazaar, Garissa Lodge and Sunshine Plaza are in this category, with annual turnover of no more than $7 million.[24]

Many entrepreneurs who began in the informal economy have expanded their businesses, turning them into contemporary shopping malls, operating inside the formal economy. They include Garissa Lodge, Amal Shopping Plaza, Liban Shopping Complex, Baraka Bazaar, Shariff Shopping Complex and Sunrise Shopping Complex. These discount malls now attract customers from throughout Nairobi and beyond. Apart from the large-scale shopping malls, there are also several Somali-owned hotels, guest houses, lodges and restaurants in Eastleigh. This process of legitimization is evident across Somali-run enterprises; as they expand they become increasingly integrated into the formal economy.

The economic transformation of Eastleigh has brought tremendous competition to the marketplace, driving down the cost of goods and services. Laptops in Eastleigh were found to be about 30 per cent cheaper than in the city centre, and identical imported furniture about 20 per cent cheaper. Somali businesses are able to offer lower prices since shops are often used for storage and sleeping as well as selling; indeed some businesses sell direct from shipping containers. Many individual consumers as well as large commercial and medium-sized traders now rely on retailers in Eastleigh. Everything from hardware to fruit and vegetables is increasingly purchased from Eastleigh. On any given day Tanzanians, Ugandans, Rwandans and other traders can be found purchasing materials to sell in their countries.[25] Eastleigh is at the centre of a network of trade that connects the Arabian Peninsula, Somalia, Kenya and East and Central Africa, with the Somali business community as the common thread.

23 Ibid.
24 Interview with Eastleigh Business Community Association (September 2009).
25 Interview with Eastleigh wholesalers and retailers (August 2009).

Somali investment in Kenya is not limited to Eastleigh. There are also many business ventures in other parts of Nairobi and in towns such as Mombasa, Garissa and Eldoret. Clearance and forwarding, and the transport industry, dominate the Somali business sector in Mombasa, whereas residential real estate and livestock represent the major business activities in Garissa.

The range of Somali enterprises

While Somali business interests in Kenya are dominated by the informal sector, there are limited activities in the formal sector. The malls of Eastleigh illustrate this mix. Their owners operate in the formal sector, but the initial funds needed to build them and to purchase the goods for sale have often been raised informally. Wealthy individuals are engaged in the large-scale wholesale, retail, housing and transportation sectors. Those with fewer resources, including a number of businesswomen, are able to open their own roadside stands selling items such as fabrics, textiles, perfumes, fruit, vegetables and CDs.

Livestock

There is a significant cross-border trade in cattle from Somalia to Kenya that has expanded to meet the growing demand for meat in Nairobi and urban Kenya.[26] The trans-border cattle trade has increased since the state collapse in Somalia.[27] Somalians and Kenyan Somalis have strengthened the existing trade networks and managed to develop new businesses in response to the growing economic opportunities in Kenya and the state deregulation of many industries. It is important to note, however, that before the state collapse this trans-border cattle trade represented a minor fraction of the total livestock trade of Somalia.[28] A significantly greater fraction involved exporting to Arab countries. This trade is increasingly becoming a multi-clan concern.

Transport

The transport sector has expanded to meet the growing demand arising from the constant movement of Somalis between the refugee camps and Nairobi and other major cities. Somali operators (both Somalian and Kenyan-Somalis) have established direct bus lines such as E-couch, Maslah, Crown and Garissa Bus. These buses also link Nairobi to other East African capitals and major cities. In Nairobi, Somalis have also entered the *matatu* (minibus) business, which began as an informal mode of transport but was later legalized and now forms a key part of the public transportation system.[29]

In the last 17 years, over ten Somali trucking companies have been formed in Kenya. With an initial capital investment of around $5 million each these now show substantial annual profits of around $20 million. Leading companies such as Awale, Tipper Freighters, Dakawe and Ainu-Shamsi Transporters own hundreds of trucks each.[30] There are also many individually owned and run truck companies operating with two to six trucks, and this growing sector plays a very significant role in Kenyan transport market.[31]

Finance

The financial sector is the main driver behind all other Somali business activities. It is mainly based on the widely practised, trust-based system of *hawala* money transfer. Major Somali-owned *hawala* companies include Dahabshiil, Kaah, Qaran, Iftin and Amal. The *hawala* system forms the nerve centre of Somali business activities everywhere in the world. It offers a cost-effective, efficient and fast way of transferring funds around the

26 Hussein Mahmoud, *Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands,* Chatham House Briefing Paper (2010).

27 Peter Little, 'Hidden Value on the Hoof: Cross-border Livestock Trade in Eastern Africa', COMESA (2003), http://www.nepad-caadp.net/pdf/COMESA%20CAADP%20Policy%20Brief%202%20Cross%20Border%20Livestock%20Trade%20(2).pdf.

28 Interviews with prominent livestock traders.

29 Elizabeth Campbell, 'The Urban Refugee in Nairobi: Problems of Protection, Mechanisms of Survival and the Possibilities for Integration', *Journal of Refugee Studies*, 19(3), 2006: 396–412.

30 Interview with transport businessmen and Eastleigh Business Community Associaton (October 2009).

31 Ibid.

world. For example, the average commission rate for sending money to or from Kenya via the *hawala* system is 5 per cent. If the amount to be sent exceeds $5,000, the cost is usually negotiated and can be as low as 0.2 per cent. This compares very favourably with a formal banking system that charges a $35 commission in addition to a 5 per cent fee (regardless of the amount transferred).

Somali business people have been very successful in mobilizing credits from their community for business projects and programmes. Through the *hawala* services, funds can be raised not only from the Somali diaspora worldwide but also from non-Somalis. The combination of ready access to finance through clan networks and the quick and cheap movement of capital through the *hawala* system is at the core of Somali business success. If it perhaps does not give Somali businesses a decisive advantage over Asian competitors (who also have access to similar networks), the system at least puts them immediately on an equal footing.

Import-export

Within the Somali business sector, the import-export trade employs the largest number of Somali people in urban Kenya. Like the *hawala*, the import-export sector is quick and efficient as it does not require the formal banking or state interventions such as letters of credit that are commonly required by banks in most East African countries. Somali business people can capitalize on a global network of kinsmen amongst the diaspora with whose help they are able to import goods from as far away as Brazil, Hong Kong, China, North America, Dubai and Europe. Normally transactions are processed through a single *hawala* service-provider using Somali middlemen in one of the international trade centres. Goods transported by boat arrive in Mombasa harbour, while airfreight usually arrives in Eldoret International Airport, to be trucked to their final destinations. A considerable proportion is transported to other east and central African countries.[32]

Real estate

Many Somalis overseas are showing an interest in buying residential properties in Kenya. This is resulting in a real-estate boom led by the Somali business community in the country. Some Kenyan property dealers claim that prices have tripled in areas where Somalis dominate, such as Eastleigh.[33] This has given rise to some friction between Somalis and Nairobi residents

Box 2: Informal and formal import routes

For some time, many goods were being brought into Kenya from Somalia by informal means. This was done by plane or by truck in ways that avoided duties and fees, and the goods entered established distribution networks. They were usually deposited at the airport and transported to Nairobi by road. The majority of the goods targeted were imported from Dubai by Somali traders or by freight companies owned by Somali networks operating largely out of Eastleigh. After a change of government in 2003, the Kenyan authorities temporarily banned cargo flights to Eldoret Airport in an attempt to prevent loss of revenue from non-payment of duty on imported goods.

These days the vast majority of goods traded by Somali businesses follows a more formal process. For example, an imported cargo from Dubai or China will arrive in Kenya by sea at Mombasa or by air in Nairobi. It is then distributed from Eastleigh to the Kenyan market or to wholesalers from Rwanda, South Sudan, Burundi and further afield.

Somali traders are able to undercut more established Kenyan businesses since they seek lower profit margins and benefit from the cost advantages of raising and spending money through the *hawala* system. Somali businessmen ruthlessly eliminate unnecessary operating costs such as showrooms and often sell their goods directly from the container.

32 Interviews with import and export traders (October 2009).
33 Personal interviews with Somali investors (October 2009).

who suspect that the expansion of Somali business is financed by piracy or other illegal activities. In June 2009, the police had to confront Kenyan traders who refused to heed a government notice to leave a market that had allegedly been sold to Somalian businessmen. The displaced traders blamed foreigners, rich with the proceeds of piracy, for taking over their livelihoods.[34]

Many Kenyans believe that there is a strong relationship between Somali investors and the pirates and warlords of Somalia. While the Kenyan media have produced some wildly exaggerated reports, there are certainly some properties owned by pirates and warlords in Nairobi and Mombasa.[35] Kenya's weak anti-money-laundering legislation and enforcement make Nairobi an attractive destination for illegal money.

But in reality the value of Somali trade and investment in Kenya is much larger than the proceeds of piracy. Anecdotal evidence points to investments of over $1.5 billion in Eastleigh in 2004. Ransoms in 2009 were estimated at around $100 million.[36] Property prices in business areas have risen because of growing demand, but residential property prices appear to be lower in areas dominated by Somalis. Somali businessmen in Kenya dismiss these complaints and attribute them to people who feel threatened by the success of Somali businesses.[37]

Fuel supply

Fuel supply is another expanding sector and the number of Somali-owned fuel stations in Kenya appears to be increasing exponentially; it rose from four stations in 2002 to 56 in 2009. Somalis are also involved in the distribution of fuel and gas across the region, including in Uganda, Rwanda, Burundi, the Democratic Republic of Congo (DRC) and southern Sudan. One of the biggest companies, Hass Petroleum, has established a large operational oil business throughout East and Central Africa with capital amounting to nearly a quarter of a million dollars. In the same category, Hashi Impex has a similar capacity in oil and petroleum products and similar annual turnover.[38]

Sources of capital

Business people secure the capital investment they require to establish their businesses by various means, some straightforward, some shadowy and complex. The sources of capital can be broadly divided into three categories, as outlined below.

Somalian capital

The most significant source of capital for Somali investment in Kenya originates in Somalia. This is provided by members of Somalia's business class, particularly those from Mogadishu and Bosasso, who usually continue to run parallel businesses in their places of origin. They have decades of experience in the informal market and have accumulated the necessary capital, either in cash or in foreign bank accounts. People in this category came to Kenya to take advantage of opportunities in Kenya's parallel market at the same time as expanding their business horizons and starting to convert their informal activities into the regular economy. The current insecurity and uncertainty surrounding Somalia's southern regions, and Mogadishu in particular, have also contributed to capital flight and driven out many successful businessmen who want to protect and reinvest their assets.

In addition, certain warlords, together with a number of corrupt individuals and businessmen inside and outside Somalia, exploited the absence of a functioning central bank and began to print Somali Shillings themselves. Certain compounding factors such as demand for local currency inside Somalia and fear and unawareness

34 'Real Estate Rent Bubble in Nairobi Threatens US Style Property Crash, It Is Claimed', *Property Wire* (2010), http://www.propertywire.com/news/africa/nairobi-real-estate-bubble-201003013921.html.
35 Nick Wadhams, 'Somali pirates take the money and run to Kenya', NPR (2010), http://www.npr.org/templates/story/story.php?storyId=126510891.
36 Anna Bowden, 'The Economic Cost of Maritime Piracy', One Earth Future Working Paper (December 2010).
37 Personal interview with Eastleigh Business Community Association.
38 Personal interview with Somali traders Adan Hassan and A. Nur (November 2009).

of the short- and long-term implications of forged money for the wider economy have kept this activity flourishing. The instability of the currency has led some Somali businessmen to demand payment in US dollars, creating difficulties for people with limited access to that currency. The newly printed currency is commonly converted into hard currency through the *hawala* system. As Somalis in the diaspora transfer money from other countries, including the United Kingdom, Kenya, the United States and the United Arab Emirates, the *hawala* agents give the newly printed currency to the local people, thereby allowing it to enter circulation. A significant fraction of the gains achieved from this traffic in forged money ends up in Kenya.[39]

Kenyan-Somali business elite capital

The second major source of capital is from the Kenyan-Somali business elite, which has generated its wealth through the formal economy but lately turned to the growing parallel market. People in this group try to combine the experience gained from Somalia's business elite (the first category) with their own political connections in order to enhance their investment opportunities.

This has led to the creation of partnerships between businessmen from Somalia and Kenyan-Somali entrepreneurs in which the former identify new business and investment opportunities and the latter help in setting up the businesses in Kenya. In exchange for initial capital investment, Kenyan-Somalis often provide the businessmen with political cover; many of them believe that

Box 3: Investments turn bad – the Dalsan case

Somali networks of family and trust have been very effective at producing capital and returns. Sometimes, however, the unregulated nature of much of this activity can provide cover for fraud and, some suspect, the funding of armed groups.

The Dalsan *hawala* service was, at its height, transferring up to $100 million a year; yet in 2006 the company folded and investors and customers lost tens of millions of dollars.[a] Like other Somali business people the founders of Dalsan sold shares to Somalis across the globe. Much of the fundraising was carried out through mosques, and Dalsan expanded across Somalia, Africa, Europe and North America.

Some of the leading figures in the company were closely linked to the militant organization Al-Itihaad al-Islamiyya (an ideological forerunner of Al-Shabaab and Hizbul Islam). Dalsan chairman Mohamed Sheikh Osman was a former spokesman for Al-Itihaad, and the brother of Aden Hashi Ayro (a militant leader killed by a missile strike in 2008) was also a prominent member of the company's leadership. This relationship has led some to question the links between Dalsan and armed Islamic groups in Somalia.

Yet in 2006, despite the apparent financial health of the company and its deep penetration of the global Somali community, Dalsan collapsed. Prosecutors in several US states had issued cease-and-desist notices for the illegal selling of securities. Once the company went under, investors found they had no means to recover their money and the leaders retreated to safety in Somalia.

Analysts are divided as to whether Dalsan was a fraud committed for personal gain or a front to raise money for Islamist groups fighting in Somalia. In any event, the case exposes two issues. First, it highlights the vulnerability of investors in this unregulated and transnational market. It was a failure not just of Somalia's regulatory framework but also of those in Europe, Kenya, the Gulf and North America that allowed this situation to arise. Second, it reveals the security issues involving the links between some Somali businessmen and Islamist groups in Somalia. It is also true that the use of salesmen who are also known for their religious devotion can be a trust-building tactic and does not necessarily indicate political motivations, but the close ties between business and politics can be a cause for concern.

a J. Peter Pham, 'Financing Somalia's Islamist Warlords', *World Defence Review* (September 2006), http://worlddefensereview.com/pham092106.shtml (accessed 31/01/11).

39 Interview with Mogadishu businessmen A. Enow, Muse Gaab, Maow Nurie and Idle Hussein (August 2009).

the mass influx of Somali refugees in the early 1990s, and the subsequently larger population and greater wealth, have been to their advantage and have helped to empower them politically as well as economically.[40] A leading Kenyan daily newspaper has recently argued that Somalis have gained political clout as a result of their wealth. Some suggest that the financial clout of the Somali community has reached the point where it can influence the outcome of an election in Kenya.[41]

Petty traders

Petty traders probably constitute the largest category of investors in terms of numbers of individuals involved. Although they are not as financially powerful as the other investors described above, the source of their capital is straightforward; some have worked hard and saved up to invest in projects, others have secured the initial capital from their relatives overseas. Increasingly, Somalis living overseas elect to put together some financial resources and send them to their relatives in Africa to help them establish a business. This helps to reduce the dependency that may have developed as result of their sending regular remittances for living costs every month.[42]

Impact on the Kenyan economy: advantages and challenges

Somali entrepreneurs have introduced new concepts of business in Nairobi. Accustomed to decades of political uncertainty and endowed with clan-based insurance against risk, Somalis have been able to turn political and social challenges into unique opportunities. Instead of going to a bank, preparing a business plan and asking for a loan, as in the past, these entrepreneurs now prepare a business plan, sell shares and implement the project.[43]

The growth of Somali business in Nairobi has attracted banks and other service-providers, and led them to open branches in Eastleigh, thus creating more jobs for Kenyans. Such service-providers have adapted their business behaviour and working hours to accommodate the demands of the Somali business communities in the area.

> ‘Accustomed to decades of political uncertainty and endowed with clan-based insurance against risk, Somalis have been able to turn political and social challenges into unique opportunities’

Somali-owned businesses have also created jobs for local unskilled workers. It was found that Somali employers tended to pay more for similar work – roughly KSH 150–250 a day compared with the average KSH 80–100.[44] Given the amount of capital invested in the areas, many Kenyan residents of the Eastlands area of Nairobi increasingly turn towards Eastleigh to earn a living.[45]

However, despite its fast-growing economic and business activities, Eastleigh itself suffers from a lack of basic public services and infrastructure such as clean water, sewage system and safe roads. Concerns have been expressed over unsafe structures that do not adhere to proper construction standards. According to the *Standard* newspaper,

> even as building experts warn of safe structure in Nairobi, the real danger lurks in Eastleigh. Live electric cables lie in open in some shopping malls [...] Some buildings have already developed cracks, hardly a year after they were put up [...] The malls stretching the main street of the shopping centre are one big mass grave in waiting.[46]

40 Interview with investors and Mohamed Arale, a Kenyan-Somali.
41 ‘Kenya should thank God for its Somali “troubles”’, *Daily Nation*, 4 February 2010, http://www.hiiraan.com/op2/2010/feb/kenya_should_thank_god_for_its_somali_troubles.aspx.
42 Personal interviews with seven diaspora investors (August 2009).
43 Interview with Eastleigh labourers.
44 Campbell, ‘Formalizing the Informal Economy’.
45 Ibid.
46 ‘Eastleigh deserves Government tour’, *The Standard*,, 13 November 2009.

Many attribute the dilapidated state of infrastructure and dangerous constructions in Eastleigh to the inability of Somalis to demand or assert their rights on account of their refugee status.[47]

Somalis use their clan-based networks to create geographically dispersed trading networks as they seek new markets and partners. Additionally, as they can mobilize resources quite efficiently and move goods across borders in the region, the well-established Somali business communities in Kenya have the potential to contribute to or spearhead wider regional economic integration and provide a wider benefit to the Kenyan economy and state.

Many Kenyans consider Eastleigh to be a centre of illicit trade that floods the country with tax-free goods. But Kenya already had a large informal economy of its own. The livelihood of most inhabitants of Nairobi increasingly comes from informal economic activities as a result of declining wage employment in the public sector.[48]

As the Goldenberg scandal showed, tax-related fraud is hardly alien to Kenyan society.[49] Members of different governments were alleged to be involved in tax evasion and unofficial import-export of goods long before the main influx of Somali refugees into Kenya.[50] In 2002, Kenya was accused of being a transit point for ‘blood diamonds’ from the DRC.[51]

While the scale of corruption in Kenya is certainly much greater than the informal business activities run by Somalis, it is also obvious that many Somali businesses are exploiting the situation to enhance their profits at the expense of the country in general and social services in particular. It is partly through manipulating the opportunities for corruption that Somalis in Kenya have managed to convert Eastleigh into a commercial area, despite the fact that it was legally zoned as residential.[52]

The informal economic activity of the Somali business sector has been detrimental to mid-sized shopkeepers, particularly the Kenyan-Asian business community. Unlike the businesses in Eastleigh that benefit from low rents and reduced import costs and sell at lower wholesale prices, outlets in the city centre (where Kenyan-Asian businesses are based) pay higher rents and taxes and obtain the necessary permits for import of goods. It is widely believed that pressure from the Asian business community was behind the government’s decision in 1995 to close the coastal refugee camps and move them inland to Kakuma and Dadaab. The Asian business community argued that the activities of Somali traders were cutting into the profits of long-established Asian business in Mombasa.[53]

There are signs of distrust between the Asian and Somali business communities. The suspected arson at Garissa Lodge in 2001 is one example. It is widely believed among Somalis that the arson was committed by Asian business people seeking to reduce and/or significantly damage their growing role in the informal economy.[54] Other traders also try to influence Nairobi’s City Council with complaints and accusations against Somalis. These tensions highlight the economic influence of the Somali business communities (both Somalians and Kenyan-Somalis) in Kenya and in Nairobi in particular.

Security threats and vulnerability of Somali communities in Kenya

Aside from business rivalries, there are some genuine national security concerns about activities within the Somali communities in Kenya. In early 2010, following the deportation of a radical Jamaican Muslim cleric from Kenya, some Muslim protesters in Nairobi carried

47 Interview with Somalis in Nairobi (2010).

48 Winnie Mitullah, ‘Urban Slum Reports: The Case of Nairobi, Kenya. Understanding Slums: Case Studies for the Global Report on Human Settlement’, United Nations Human Settlement Programme (2003), http://www.unhabitat.org/downloads/docs/GRHS.2003.0.pdf.

49 Deremo Maiko, ‘Heads to roll over Goldenberg scandal’, *News from Africa* (April 2003), http://www.newsfromafrica.org/newsfromafrica/articles/art_1278.html. Transparency International, Corruption Perception Index 2009 (2009), http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_ 2009_table.

50 Roger Southall, ‘The Ndungu Report: Land and Graft in Kenya’, *Review of African Political Economy*, 32(103), 2005: 142–51.

51 *Final Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo*, United Nations (October 2002).

52 Interview with Somalian businessman in Nairobi.

53 Ibid.

54 Interview with eight major businessmen (September 2009).

the black flag of Al-Shabaab, the hard-line Somali Islamist rebel group. This has created suspicions about the potential extremist threat from within the Somali community. The Kenyan Security Minister blamed 'violent foreign elements from a neighbouring country, Somalia' for the mayhem and said that the ensuing riots had not been caused by Kenyan citizens but by foreign extremists.[55]

The long, open border between the two countries provides easy access for the supporters of extremist Somali groups such as Al-Shabaab and Hizbul Islam to travel to and from Kenya (including Nairobi), where they are thought to raise funds and engage in recruitment.[56] The extent of the danger posed by such groups was illustrated in July 2010 by the Al-Shabaab suicide bombing in Kampala that killed 74 people. The attack has implications for the security issue surrounding Somalis living in and travelling to and from Kenya.

A 2006 report by the UN Monitoring Group on Somalia drew attention to the role of radical Somali clerics in Kenya in raising funds and other forms of support for Islamist fighters in Somalia, including those belonging to Al-Shabaab and Hizbul Islam.[57] Religious centres in Nairobi such as the Abubakar al-Saddique, the Al-Hidaya mosque, Beit-ul-Mal Madrassa and the Masjid-ul-Axmar (run by what the report described as wealthy clerics-cum-businessmen) were identified as the resource base for Somali Islamist militants. The clerics criticized in the report included Sheikh Mohamed Abdi Omar (aka Sheikh Umal), the imam of the Abubakar al-Saddique mosque, Sheikh Hassan Hussein and Mohamed Ma'alin Nahar (a brother of Abu Uteyba, a former Al-Shabaab commander). The clerics are very influential and have wide-ranging business and economic interests in Kenya.[58] Subsequently, Sheikh Umal challenged Al-Shabaab openly, denouncing the group's actions as un-Islamic. In response, Al-Shabaab issued a *fatwa* against him.[59]

Somali parents in Kenya are concerned that Al-Shabaab representatives are targeting children on the streets of Nairobi or at Islamic learning centres (madrassas) popular among Somali youngsters.[60] Some of these youth are from Somali families living in Western countries that send their children, particularly those performing badly in schools or driven into gang crime, to Kenya for rehabilitation. These children commonly attend the Islamic centres in Kenya and may to be vulnerable to radicalization.[61]

The risk of radicalization among Somalis in Kenya must be taken seriously. But anxiety about this on the part of the Kenyan authorities is likely to add yet another layer of risk to a population that is already vulnerable. Many Eastleigh inhabitants have no legal documents permitting them to stay in Kenya. Combined with their visible financial success, they are easy prey for corrupt police officers and armed gangs who target Somalis regularly for bribery and protection money.[62] There are cases of Somalis being arrested more than 20 times, each time paying significant amounts of money to secure their release.[63]

In January 2010, in the aftermath of the Muslim riots, more than 500 Somalis were arrested, including Kenyan Somalis and Somali MPs and diplomats who were in Nairobi for official business. Within the Somali

55 'GSU officer shot in riot dies', *Daily Nation,* 17 January 2010, http://www.hiiraan.com/news2/2010/jan/kenya_gsu_officer_shot_in_riot_dies.aspx.
56 Dave Opiyo, 'More Border Security Over Somalia Threat' (June 2009), http://allafrica.com/stories/200906240715.html.
57 *Report of the Monitoring Group on Somalia pursuant to Security Council resolution 1853 (2008) (S/2010/91)* United Nations (March 2010), http://www.reliefweb.int/rw/rwb.nsf/db900SID/MUMA-83N2WN?OpenDocument.
58 *Report of the Monitoring Group on Somalia pursuant to Security Council resolution 1676* (November 2006), http://www.cfr.org/publication/12021/report_of_the_monitoring_group_on_somalia_pursuant_to_security_council_resolution_1676_november_2006.html.
59 Ibid.
60 'Somalia's Al-Shabab recruits "holy warriors" with $400 bonus', *Christian Science Monitor* (April 2010), http://www.csmonitor.com/World/Africa/2010/0415/Somalia-s-Al-Shabab-recruits-holy-warriors-with-400-bonus.
61 'Al-Shabab Militants Threaten Kenya for Recruiting Allegations', *Issue Post* (October 2009), http://www.issuepost.com/news/story/24214.html.
62 Human Rights Watch, 'From Horror to Hopelessness', *All Africa* (March 2009), http://www.hrw.org/en/reports/2009/03/29/horror-hopelessness-0
63 Interviews with 12 women and men arrested (September 2009).

community, this was seen as a strong signal that Somalis could no longer count on being welcome in Kenya.[64] The incident spread fears that Somalis and their businesses in the country would become the targets of violence. Subsequently many Somali families in Nairobi and Mombasa – estimates provided by the local administration put the number at several hundred – decided to move to Garissa where they feel safer.[65]

Conclusion

The economy of Somalia and of the diaspora Somali communities has proved remarkably resilient in the face of prolonged warfare and government collapse. The informal business model developed in Mogadishu has been transferred to Nairobi where Somali business people are generating money and jobs. Despite conventional wisdom dictating that the collapse of government in Somalia should have been disastrous for businesses connected to Somalia, the strength of clan and family networks of trust has allowed Somali communities to survive and in some cases prosper. The reliance on trust as a guarantee reduces or eliminates the need for paperwork and facilitates opportunities for cooperation. This is a challenge for regional organizations, as they try to design mechanisms that encourage business relationships across the region.

Somali businesses in Kenya have created thriving enterprises in the retail, finance, import-export and transport sectors. Despite the negative perceptions in the Kenyan press and wider Kenyan community, the reality is that these enterprises offer much that is of benefit to Kenya. Eastleigh acts as a central point for the distribution of goods around East Africa. Somali businesses employ many non-Somali Kenyans and provide opportunities for other Kenyan businesses. Somali business people increasingly operate at least partially within the formal economy and are a growing source of revenue for the Kenyan exchequer.

Somali networks criss-cross the Horn of Africa and, as states in East Africa seek to develop deeper economic links, their experience shows that such links already exist, at least informally. Finance from Mogadishu, distribution networks fanning out from Nairobi and agents across the region paint the picture of an increasingly connected economy. The clan- and family-based nature of Somali business networks means that there is ample scope for developing new markets and connections wherever Somali communities are present. It must also be noted that Somali networks extend into Europe, North America, the Gulf states and beyond, demonstrating the continuing connectedness of this widely dispersed community.

> 'The clan- and family-based nature of Somali business networks means that there is ample scope for developing new markets and connections wherever Somali communities are present'

As new means of transferring money, including via mobile phone, are developed and more people have access to banking facilities, the advantages that Somali entrepreneurs have had from the *hawala* system will spread further. The experience of Somalis in Kenya is that to build new business opportunities entrepreneurs need an enabling environment. Somalis in Kenya have created such an environment by circumventing formal structures, and states in the region should therefore seek to build formal structures that do not drive entrepreneurs to confine themselves to the informal sector. Such an enabling environment should lead to improved tax receipts for Kenyan authorities and would have the added advantage of making it easier to identify potentially subversive or illegal activities.

64 'Lawmakers Arrested After Kenya Riots', *All Africa* (January 2010), http://allafrica.com/stories/201001190784.html.
65 Interview Abdi Nuur, official with local authority (June 2010).

The lack of government oversight and protection presents problems. Sectors such as the livestock trade are usually vulnerable on the international market without a strong government voice on their side – as was amply illustrated by the Saudi ban on livestock imports. The lack of oversight also means that unscrupulous activity or irresponsible actions go undetected and, as was seen from the collapse of Dalsan, this leaves individuals very vulnerable. Likewise, without proper oversight governments may lose out on tax revenue.

Perhaps the most worrying consequence of this informal market is the space it provides for cooption of business activity by politics. The links between politics, business and religion go back a long way in Somalia and are hardly surprising. What is of concern, however, is the role, identified by the UN Monitoring Group, that some Islamist radicals appear to have played in funnelling money to the war in Somalia. Combined with the concerns of the Kenyan government about radicalization, this demonstrates a dangerous weakness linked to the unregulated economic activity stemming from Somalia.

Eastleigh, Nairobi, Kenya and East Africa have benefited from the entrepreneurial activities of Somali business people. These activities straddle countries and continents, and have developed despite, or even because of, the collapse of Somalia. The experience has not been without problems. Governments in the region and internationally should think about ways of protecting investors and bringing more of these activities into the formal economy. Today it is Kenya that benefits from these activities, yet the networks that have been built and the experience that has been gained also represent a rich resource for Somalia that could be put to the betterment of the country when the political situation improves. It is hard to predict how the businesses described in this paper will develop but the expectation must be that this is a phenomenon that will continue to grow.

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This work is being funded by:

- British Foreign and Commonwealth Office
- Norwegian Ministry of Foreign Affairs
- Swiss Federal Department of Foreign Affairs

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10 St James's Square
London SW1Y 4LE
www.chathamhouse.org.uk

Registered charity no: 208223

Designed and typeset by SoapBox, www.soapboxcommunications.co.uk

Cover image © Farah Abdulsamed, 2010. Mall being built in Eastleigh, Nairobi.