

# Somalia's mighty shilling

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- A currency issued in the name of a central bank that no longer exists

# An expression of faith

- Use of a paper currency is normally taken to be an expression of faith in the government that issues it
- Once the solvency of the issuer is in doubt, anyone holding its notes will quickly try to trade them in for dollars, jewellery or, failing that, some commodity with enduring value

# An exception

- When the rouble collapsed in 1998 some factory workers in Russia were paid in pickles
- The Somali shilling, now entering its second decade with no real government or monetary authority to speak of, is a splendid exception to this rule

# A central bank

- Somalia's long civil war has ripped apart what institutions it once had
- In 2011 the country acquired a **notional** central bank under the remit (authority) of the Transitional Federal Government
- But the government's authority does not extend far beyond the capital, Mogadishu.

# Backed by no reserves

- Why are Somali shillings, issued in the name of a government that ceased to exist long ago and backed by no reserves of any kind, still in use?

# Supply fixed

- One reason may be that the supply of shillings has remained fairly fixed
- The lack of an official printing press able to expand the money supply has the pre-1992 shilling a certain cachet (prestige)

- What about fakes?
- Abdirashid Duale, boss of the largest network of banks in Somalia, says that his staff are trained to distinguish good fakes from the real thing before exchanging them for dollars



# Money is useful

- A second reason for the shilling's longevity is that it is too useful to do away with
- Large transactions, such as the purchase of a house, a car, or even livestock are dollarised. But Somalis need small change with which to buy tea and sugar

# Medium of exchange

- Many staples are not produced domestically, making barter impractical
- The shilling serves as well as shells or beads would as a medium of exchange

# Store of value

- It also has a role as a secondary store of value
- Herders need to find ways to save money received then for spending over the next year. The shilling is one of them

# Tacit consent

- The shilling has a further source of strength
- Paper currencies always need tacit consent from their users that they will exchange bills for actual stuff
- In Somalia this pact is rather stronger: an individual who flouts (disregards) the system risks jeopardising trust in both himself and his clan