

POLITICS NOW

## Remittance transfers to Somalia

### Keeping the lifeline open

#### Key points

- Remittances from abroad are a vital lifeline for households in Somalia. 40% rely on them to meet food security needs.
- The majority of remittances to Somalia, Puntland and Somaliland are through licensed money transfer operators (MTOs) rather than informal money transfers.
- Barclays Bank is the last of the global banks to offer accounts to MTOs; Barclays' decision to close this facility could create a humanitarian crisis.
- No documented breaches of financial regulations have been reported. The closure of the accounts of MTOs is the result of a general aversion to risk on the part of international banks



The Adeso/Oxfam report, *Keeping the Lifeline Open: Remittances and markets in Somalia* argues that banks and regulators are in danger of inadvertently undermining the lifeline of remittances and driving it underground. This is a result of tighter interpretation of legislation on money laundering and counter-terrorism in the UK and the USA, and greater risk-aversion on the part of banks. Plans by Barclays to close the accounts of all UK Somali Money Transfer Operators (MTOs) will have an effect beyond the UK, as many MTOs based in Europe route money to Somalia through the UK. Somalia currently has no formal banking sector, and MTOs are the only official means of getting money into the country.

**Nuur Mohamud Sheekh**, the coordinator of the RVI's Nairobi Forum Programme, opened the event, predicting that the shutdown by Barclay's Bank of Somali MTO accounts at the end of September would have dire consequences. He introduced the chair of the panel, Senator Billow Kerrow, currently Senator for Mandera, Senator Billow is also Chair of the Finance, Commerce and Economic Affairs Committee of the Government of Kenya, and was MP for Mandera from 2003 to 2007.

#### Panel

**Senator Billow Kerrow**, Parliament of Kenya (Chair)

**Degan Ali**, Executive Director, Adeso

**Abdirashid Duale**, CEO, Dahabshiil

**Philippe Lazzarini**, UN Resident & Humanitarian Coordinator for Somalia

**Ed Pomfret**, Acting Country Director, Oxfam in Somalia

#### Introduction

Somali migrants from around the world remit \$1.3 billion annually. This exceeds the total sum for humanitarian aid to Somalia, which reaches \$800 million at its highest. Remittances make a significant contribution to Somali household income and food security. In Puntland and Somaliland an estimated 40% of families depend on them to meet their food security needs. Over 50,000 people across the world work in *hawala* system, in the outlets of Somali money transfer operators, the principal channel for remittances.

#### Remittances as the backbone of the economy

**Degan Ali**, Executive Director of Adeso, offered recommendations from the Adeso/Oxfam report and insights gained from the launch of the report in Minneapolis. The report, she said, was prompted by the

decision of US banks to close the accounts of Somali-American MTOs at the end of 2011. It had been strongly endorsed by the Somalia diaspora, and by Minneapolis Congressman Keith Ellison and Senator Al Franklin. She summarised the report's findings on compliance procedures in Somali MTOs globally.

Adeso, she said, was well-positioned to carry out the study with Oxfam because it is a Somali organisation and understands both the negative and positive humanitarian impact of remittances. Research in Somalia shows that those communities whose members receive remittances experience greater food security than others. For instance, Bay and Bakool, which have historically received less money from remittances, have faced greater food insecurity.

Access to remittances, she said, was part of Adeso's targeting criteria for cash-transfer projects; those who received remittances were not targeted because statistically they were better off. The global recession had altered the target base, however, and areas which had previously experienced better livelihoods because of remittances now also needed assistance. In the long term alternatives should be considered, but it was important, she argued, to continue to support the current process in the short term.

The younger generation, Degan Ali stressed, was not using the remittance system to the same extent as the older generation. In the future, fifteen or twenty years hence, the system might have less relevance. But today, she said, 'remittances still remain the backbone of the Somali economy; aid and private investment is miniscule in comparison.'

A conservative estimate of remittances to Somalia is roughly \$1.3 billion, she said. This compares to an annual average of \$800 million from foreign aid. Since there is no formal banking structure it is not just the average household but the entire market system that depends on remittances. Of the forty percent of Somali families that receive remittances, the highest percentage is households led by women; this estimate is likely to be even higher since families tend to share with extended family and their community.

For this report, said Degan Ali, Adeso interviewed different MTOs at the local and regional level and concluded that the majority of MTOs—operating as they did in insecure environments—were largely compliant with rule of law and regulatory measures. They were knowledgeable about their consumer/client base despite the lack of government-issued IDs. Yet, she said, the system is not full proof; MTOs must improve coordination. This could be by organizing through trade unions and associations. They must strengthen their own self-regulation mechanism by training agents and enhancing record-keeping. Some MTOs, she said, are

more compliant than others; Dahabshiil and Amal have shown exceptional adherence to compliance measures.

Degan Ali recommended that MTOs invest locally in the community and in developing technology—for instance, in a biometrics system that could be used to compile a database to assist in identifying recipients. The Somalia government—with the support of the international community—should focus on formalising rules and regulations for the banking sector, including anti-money laundering laws, to persuade international banks to operate in Somalia.

There needs to be a concerted effort by the various stakeholders to talk and devise practical solutions. The humanitarian community, Degan Ali said, should take a more active and involved role in supporting MTOs through advocacy; the link between widespread restrictions on remittances and humanitarian crisis needs to be stressed.

## Banks and their fears

**Abdirashid Duale**, the CEO of Dahabshiil, provided an overview of the challenges faced by the industry. In his estimation, Barclay's decision to withdraw from Somalia was based on fear and misleading perceptions of Somalia as 'high risk'. These fears have increased since 9/11. Yet Barclays and other banks have never visited Somalia to conduct their own assessments and ascertain whether the risk is real.

Remittances are a crucial reason for stability and security in certain parts of Somalia; closures will not address western fears, they will push the industry further underground, exacerbating insecurity in the country.

While western governments argue that it is a commercial decision, ultimately it is their regulations which require MTOs to secure bank accounts in order to procure licenses to operate. Western governments are deeply involved. They should work together with foreign banks and MTOs to address this fear and devise a practical and viable solution.

Abdirashid expressed frustration at the lack of transparency on Barclay's part and the failure to provide specific reasons for the closures or details on what measures MTOs could take to reduce risk. Biometrics could be the solution to security worries, but, he explained, 'the problem is we just don't know'. He appealed to Barclays to provide some sort of guidance for how MTOs should proceed.

**Ed Pomfret**, the Acting Country Director of Oxfam in Somalia, supported the other panelists' recommendations. A briefing paper based on the report, he said, had the support of 13 other

organizations. He explained how humanitarian NGOs used MTOs such as Dahabshiil to make vital cash transfers to people in Somalia during the 2011 famine.

In his assessment, MTOs were a Somali-led resilience solution, the epitome of ‘Somalis doing it for themselves’. Barclay’s closure of the facility was a discriminatory practice, unfairly affecting Somali businesses. There was indeed a need to address critical issues such as money-laundering, but closing down all operations threatened the progress that Somalia was currently making and ignored the efforts that Somali companies had made to become compliant. These companies should be dealt with on a case-by-case basis.

To illustrate why the closure of MTOs would have dire consequences, he quoted interviews with two Somalis. Mohamed Khalif from Juba, said “without this service there will be no life, how else will we survive”. Zeyneb from Hargeisa explained how the “money [she] receives allows [her family] to live a more decent life.” Some 80% of remittances to Somalia, he said, are spent on basic daily needs.

Ed Pomfret referred to a report published by ODI that analysed cash relief programs (*Remittances During Crises: Implications for humanitarian response*). These transfers were successfully made through MTOs like Dahabshiil. Risk is manageable, he argued. It requires investment and a commitment from the international community to ensure that Somalia does not fall back into crisis. While DFID understands this issue, he said, the UK Treasury has been less supportive. The UK Treasury has taken the view that it is commercial decision for banks to deal with. Yet, during the banking crisis two years ago, the UK government stepped in to buy banks facing bankruptcy. They should concern themselves likewise with the issue of MTOs.

In the last two months, Ed Pomfret said, some progress has been made; the UK government has begun to see remittances as a critical problem; yet, they still view it as an issue to be dealt with in the medium to long term. This is problematic, because they need to work with MTOs and NGOs now in order to provide practical solutions to address the gap in the short term. In the long term they will need to assist Somalia in developing a formal banking system.

Barclays is not the enemy, said Mr Pomfret.; it is the ‘last bank standing’ and has partnered with Somali MTOs as others have fallen away. To extend the 30 September deadline for another year so that a sustainable solution can be found, there needs to be an understanding between Barclays and the government so that regulators will not penalise Barclays if they agree to extend.

These decisions are not made in a moral vacuum; banks have a ethical responsibility to keep providing these

services in the short term. Somalis are resilient and if the closures proceed, they will bounce back, but the remittance transfer system risks being pushed underground and causing more acute problems for tracking money in the future.

## Remittances and survival

**Philippe Lazzarini**, the UN Resident Humanitarian Coordinator for Somalia, reiterated the key role of remittances in providing for daily survival, with 80% of the 40% who are dependent on remittances using the money for basic needs. While the overall situation in Somalia has improved—the famine is over and Somalia has had four good rainy seasons—the bad news is that, according to an assessment six months ago, the number of people under food security stress has increased from 1.7 million, to 2.3 million today. NGOs are struggling to gain access; remittances provide an alternative route for assistance. For example, UNDP recently used Dahabshiil to transferred money to the office of the Somali Prime Minister.

Barclays, he pointed out, announced these closures at a time when the international community is becoming more involved with the Somali government in peace and state-building efforts. The closures risk undermining the overall effort; remittances are essential to providing basic services and contribute to the overall recovery of the economy.

Mr Lazzarini agreed with Abdirashid Duale that Barclay’s decision was about perceptions of risk, because there have been no specific examples of non-compliance. It was necessary to address this without blaming the bank. The long term solution would be to establish a formal banking system; the Minister of Finance and Governor of Mogadishu were aiming to issue the first banking license by the end of the year.

He stressed the need for various stakeholders to devise a practical solution for an interim period of two to three years. A practical solution should be devised if Barclays is to postpone the closing date. He proposed a remit-fund, available for a temporary period which would be owned by multi-lateral organizations. MTOs could operate through this fund.

**Senator Billow Kerrow**, bringing the panel presentations to a close, highlighted some of the issues raised. He noted the consensus that the *hawala* system as a whole is a critical lifeline for the Somali community and should not be subject to restrictions without reason. There needs to be coordinated effort between the UN, NGOs and Somali consumers to devise a long term solution.

## Discussion

**Paul Simkin** from Conflict Dynamics International questioned the application of the concept of resilience to Somali populations, arguing that its role should not be exaggerated. 'Somalia,' he said, 'is still very much a country in need.' It had the lowest Millennium Development Goals of anywhere in the world. He clarified the role of the international community in developing compliance measures among MTOs. Following 9/11, he said, and the closure of the leading MTO at the time, al-Barakat, the European Commission and UNDP had begun a project focusing specifically on making MTOs more compliant. These could only be a temporary fix, though. Barclay's decision should be seen as an opportunity for the international community to put forward a comprehensive, all-inclusive, financial services package to the British government and at the Brussels conference. A model could be financial services in Kenya such as M-Pesa or Equity Bank.

**Borari**, a Somali parliamentarian, voiced concerns about the unsustainable nature of the *hawala* system, and the need to avoid creating dependent systems that fail to address long-term issues such as structural poverty.

**Matt Bryden**, Director of Sahan Research, thanked the panelists for a practical exposition of the problems and solutions. He questioned Barclay's decision to act now, with the risk to the financial sector from piracy and political extremism having decreased significantly. From 2007 until 2010, he said, al-Shabaab channelled considerable amounts of money through informal systems; this was no longer the case. Their financial support base has been eroded. Similarly for piracy, illicit flows from piracy have diminished drastically since 2012. Thus, two of the major reasons for withdrawing the accounts of MTOs have in the last year become almost obsolete. He inquired whether Barclay's was likely to postpone the deadline. **Ed Pomfret** of Oxfam responded that Barclays had postponed three times, most recently in the current week, responding to public pressure. He proposed putting pressure on Barclays through Twitter (#yourbank).

**Degan Ali** proposed that in order to make the system more sustainable in the long-term there should be greater corporate social responsibility. Somali MTOs, she said, should invest in the community. A natural progression whereby these MTOs become full-fledged banks is an option; Dahabshiil has already begun the process. They need to enhance their ability to adapt to Western standards. She challenged MTOs to take advantage of their lobbying ability (particularly in the United States where it is hard to get anything achieved without a lobbying platform). This would demand coordination by MTOs. The UK Diaspora, she said, also needed to put pressure on their parliamentarians.



### Credits

© 2013 Rift Valley Institute (RVI). Published under Creative Commons Licence 3.0 and available for free download at [www.riftvalley.net](http://www.riftvalley.net). This report is an account of a meeting organised for Oxfam and Adeso by the Rift Valley Institute, as part of the programme of the RVI Nairobi Forum. The meeting was held at the Kenya International Conference Centre in Nairobi on 11 September 2013. The report was written by Claire Elder.