



**Baseline Assessment Summary (July 2015)
Republic of Somalia / Central Bank of Somalia**



**TECHNICAL EXPERTISE REQUEST:
Supporting the Central Bank of Somalia's regulation of mobile money to
strengthen and safeguard remittances**

Due to the absence of commercial banking services and regulatory oversight bodies, the launch and operation of mobile money services in Somalia have taken place without the development and implementation of a formal licensing and regulatory framework.¹ The Central Bank of Somalia (CBS), the national authority responsible for licensing, regulating, and supervising financial institutions (including those providing remittance services),² has identified this lacuna and recognizes the advantages which can accrue when an appropriate framework is adopted. These include: safeguarding remittances by providing greater consumer protection through the adoption of prudential regulations/mechanisms; de-risking remittances through the domestication of AML and CFT standards; and fostering market competition by

¹ Orozco and Yansura *Keeping the Lifeline Open: Remittances and Markets in Somalia*.

² Central Bank of Somalia *Strategic Plan 2013-2018: building a robust financial system and promoting and fostering financial stability*. August 2013. Page 16.



adopting appropriate licensing requirements (which has the possibility of reducing the cost of money transfers). In recognition of the above, the CBS has developed an internal draft *Mobile Money Services Provider Licensing Regulation, 2015*. However, the CBS requires expertise to fine-tune and improve the draft regulation in order to ensure that it is effective and appropriate to Somalia. This entails:

- 1. Technical support for targeted research on mobile money banking**
- 2. Technical support for drafting and fine-tuning regulations**
- 3. Expertise in setting road maps**

Reasons of the request

Remittances to Somalia from the diaspora comprise 50% of Somalia's gross national income annually – this is estimated at more than USD\$ 1.3 billion annually. In recent years, the Central Bank of Somalia has struggled to re-establish effective commercial banking services and regulatory oversight bodies across the country. Informal money banking networks therefore thrive unchecked bringing in over USD\$ 1.3 billion in remittances from the diaspora. There are many ongoing and upcoming donor interventions planned for Somalia which interface with mobile money banking, directed at the regulation of the banking industry, both formal and informal. There is increasing global and national interest in combatting money laundering and terrorism. A growing number of Somalis use mobile money banking.



Learning from the Baseline Assessment:

- The Federal Republic of Somalia (FRS) became a failed state in 1991 with the collapse of the Siad Barre regime. Since then, civil war culminated in the Somaliland region declaring itself an independent state in May 1991. Puntland declared itself a separate region in August 1998. The United Nations recognizes the FRS as the legitimate government of Somalia.
- The regionalization of Somalia means there are three separate systems in the various government sectors such as finance, education and health. The Central Bank of Somalia (CBS) is situated in the Federal Republic of Somalia (FRS) and serves as the fiscal and financial agent of the government, charged with regulating the financial sector. However it has few operating branches in south central Somalia and none in the other two regions. Somaliland recognizes the Central Bank of Somaliland as its central bank.
- In recent years, global attention has been drawn to the sector of mobile money banking (MMB) in Somalia. This is due to its rapid growth, the emerging cases of money laundering and funds directed towards terrorism, and importance of remittances to the local economy. Remittances account for 50% of Somalia's GNI. It is estimated that Somalis in the diaspora send more than USD\$ 1.3 billion annually to Somalis in Somalia as remittances. Eighty percent of Somalia's investment funds come from remittances. They fund the daily survival needs of local people, in terms of food, shelter and other basic necessities. Therefore remittances contribute to the stability and resilience of the Somalia economy.
- A growing number of Somalis receive their remittances through their mobile phones. The mobile banking industry has thrived due to the rapid development of telecommunications in recent years. Six telecommunications firms or mobile network operators (MNOs) are based in Somalia and contribute to high use of mobile telephones for communication and now for mobile money banking



(MMB). These firms have been largely unregulated yet they control the telecommunications industry and are the link to the remittance corridor. Fourteen money transfer operators (MTOs) also called “Hawalas” work across Somalia, but have their headquarters in the developed world – UAE, Canada, the UK and USA, to name a few countries. The Hawalas are a trusted and affordable means of sending and receiving money even to remote parts of Somalia. Development agencies and NGOs also use mobile money banking for sending money in cash for food programmes during drought, or to pay salaries in remote areas of the country.

- The increased global attention on mobile money banking (MMB) is also due to incidences of global terrorism and money laundering and the lack of anti-money laundering (AML) and combatting financial terrorism (CFT) standards and measures in Somalia to address and prevent incidents. The big banks in the developed world have periodically used legal means to cut off the Somalia remittance corridors in an effort to stop money laundering and financing of terrorism. While this has resulted in untold suffering to the Somalis living in Somalia, it has also brought more national attention in Somalia to the need for MMB regulation.
- Donor aid to Somalia increasingly focuses on finding a permanent solution to the regulation of mobile banking, by working with the various state actors, including the Federal Government of Somalia, the Central Bank of Somalia and other ministries. This interest is reflected in the many promising donor interventions underway or in the pipeline which have components addressing legal and regulatory frameworks for mobile money banking.
- The CBS has developed draft regulations for MNOs involved in mobile money banking and has requested Technical Assistance from the ACP EU Migration Action for a targeted research study, the fine tuning of the draft regulations and a road map for adaption of the recommendations. Support is recommended but with revisions to the Fiche. These would include targeted research on MMB using Rapid Assessment Procedures (RAP); fine tuning of the draft regulations with a legal expert, and



field visits to all three regions; and redirection of a road map for the CBS which focuses less on adoption of regulations and more on a way forward for the CBS, including involvement in the ongoing and planned projects. This recommendation comes about for several reasons. These are: the CBS lack of reach and non-recognition in the other two regions, the risk that the proposed TA could duplicate or conflict with the current donor programs underway or under preparation, and the need for greater involvement of the CBS in donor projects' that will begin processes and implement interventions in areas of priority to the CBS (namely the regulation of mobile money).

- The baseline assessment recommends technical assistance to the Central Bank of Somalia's request supporting research, fine tuning the regulation with donors and other partners and a change in the road map, with less focus on adoption of the regulations and more on finding a fit in the upcoming projects, especially the Phase II of the ICT Sector Support project implemented by the World Bank (with funding from the Somalia Multi-Partner Fund and co-funding from the EU via AfricaConnect).
- The CBS has taken an important step in drafting the regulations - the task of ensuring if any regulations are sound requires extensive consultation with others. The final regulations should also be shown to be flexible with respect to differences in each region. Testing and revising them will also be necessary and the CBS cannot do this alone.