THE SOMALI REMITTANCE ECOSYSTEM
DEVELOPMENTS AND THEIR SOCIAL IMPACT

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CALETA
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In 2020, remittances totalled around $540 billion. Remittance flows to low- and middle-income countries are growing in importance, and are higher in aggregate than both foreign direct investment and official development assistance. Somali migrants from around the world remit $1.3-2 billion annually. This exceeds the total sum for humanitarian aid to Somalia. 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 the outlets of Somali money transfer operators, the principal channel for remittances.

In this context, this report examines the available evidence on remittance flows and their potential economic effects. We do not aim to present new, original empirical estimates of effects, but rather this study presents a review of the available evidence on remittances and their effects gathered from various stakeholders from the cross border remittance industry.

The report begins with a review of developments and trends in remittance flows, including a focus on 2020 and the outlook for 2021. Evidence is then presented on the use of remittances by recipients and their potential economic impact. We explore and show how remittance flows remain a crucial lifeline in supporting developing economies through the current pandemic crisis and into the recovery.
1. A BRIEF HISTORY OF SOMALIA
Somalia is a country prone to attracting curiosity owing to its tumultuous recent past.

Located in East Africa, and bordered by Kenya, Djibouti and Ethiopia, the country experienced Italian and British colonial occupation until the 1960s, followed by dictatorial rule until 1991. The dictatorship ended with a deadly civil war, which led to many years of continued warfare in the country. A de facto government declared the formation of an independent Republic of Somaliland in the North in 1991, and the Northeast was proclaimed to be the autonomous region of Puntland in 1998. In other words, Somalia has been lacking a central government since 1991, and the problem persists to this day. In 2012, a federal government was established, giving hope for the creation of stable Somali governance. However, today the government remains fragile and has control over just part of the territory. The United Nations is calling on Somalian leaders to hold elections as soon as possible in order to establish stable governance, which will hopefully bring peace and improve the lives of millions of Somalis.

Not surprisingly, these conflicts have had a huge impact on the 16 million inhabitants of the country.

Somalia has been a failed state, and is now a fragile one. The government is not able to ensure the wellbeing of its population; many Somalis have been killed in the conflicts; and armed groups such as al-Shabab, linked to al-Qaeda, remain active in some parts of the territory.

The continued state of warfare and violence has hindered economic development, and the poverty rate is as high as 73% in the country. About 4.1 million Somalis are food insecure, and over one third do not have enough water.

The economy is largely dysfunctional, and youth unemployment is 67%, one of the highest in the world.
As the economy is still fragile, and most of the population lives below the poverty line, remittances are vital for Somalis as a source of income which they use to buy food, and to access education, health and other essential services. Remittances also contribute to the economic development of the country, and remittance services providers (RSPs) are pillars of the Somali economy. In fact, the average Somali does not have access to a bank account, and therefore uses RSPs for both private and commercial transactions.

The prolonged state of conflict within Somalia has led to high migration, with people leaving either to escape conflict, or in search of better economic opportunities and educational possibilities. A large majority of the two million Somalis who have left the country continue to support their loved ones who remain by sending them money regularly, an indication of their strong ties to the community and to their willingness to contribute towards the rebuilding of the country.

About 70% of the Somali diaspora lives in neighboring countries such as Yemen, Kenya, Ethiopia and Djibouti. Additionally, a growing number of Somali migrants have decided to settle in the US. In Europe, the largest Somali community is in the UK, followed by Sweden and the Netherlands.

**SOMALIA’S GLOBAL DIASPORA**

**TOTAL NUMBER OF SOMALI MIGRANTS LIVING OUTSIDE OF SOMALIA IN 2015, IN THOUSANDS**

Note: Estimates rounded to nearest 10,000

As data regarding Somalia is scarce, many research institutions have put forward estimations of the amounts remitted by Somalis who have left the country. Their results indicate that the Somali diaspora sends between approximately $1.3 - $2 billion in remittances every year to their friends and relatives who remain in the country⁶. According to Somali central banks, which have also started to calculate remittance inflows, remittances to the entirety of the country exceed $3 billion. This amount represents a large share (about 20% to 50%) of the GDP, which is estimated to be around $6 billion.

It is estimated that 40% of Somali households receive remittances⁶. By conducting interviews with RSPs working in Somalia, we observed some patterns concerning the characteristics of money senders and receivers. The average amount of each remittance transaction to Somalia is approximately $300, but can be increased to around $500 in case of emergencies such as health issues. Remitted funds are in the large majority of cases dedicated to the feeding or tuition of the sender’s loved ones, who are either family or friends living in Somalia. The receivers’ profiles can vary widely, with the age range being between children as young as 10 years to older adults of 80 years. In this way, remittances support all parts of the Somali population. Receivers are typically female, since they are generally the ones needing the additional income to take care of the household and of the children. In other cases, members from the diaspora choose to support the reconstruction and essential infrastructures in their country, for example by sending money to hospitals. Charities such as orphanages are also beneficiaries of remittances. Remittance senders are both males and females, usually economically active individuals ranging between 25 and 55 years in age. It is interesting to observe that different generations of migrants have different remittance patterns: while first and second generation migrants have very clear memories of and close bonds to the country and want to send support, the third generation of migrants is generally largely integrated to the country of immigration, less connected to Somalia, and therefore less likely to remit funds.

Remittances to Somalia originate primarily from Western countries: the main sending countries are the United States, followed by Canada, European Union countries, and about 20% of remittances are sent from other African countries such as Kenya, Uganda and Ethiopia.

In other words, the Somali diaspora settled all over the world has remained particularly supportive of their compatriots who have remained in the country. The country is largely dependent on remittances, but many challenges still have to be overcome to make remittances to Somalia safer, cheap, fast and transparent.
The Somali diaspora has historically been supportive of Somalia’s population when the country faced crises or emergencies. As an example, when a drought hit the country in 2011, a large part of the population survived thanks to the remittances they received, enabling them to pay for necessities such as food and water.

However, in the case of COVID-19, the international scope of the crisis was such that the diaspora was strongly affected as well. Many Somalis abroad lost their jobs or were not able to work owing to lockdown regulations aimed at slowing the spread of the virus. A typical example provided by a person we interviewed is a Somali Uber driver in Canada who could not work at the apex of the pandemic, and therefore did not have any additional income to remit to his loved ones in Somalia. Members of the diaspora, particularly those working in regions such as the Gulf countries, often had no salary compensation.

From April 2020, the COVID-19 pandemic came as a shock for those Somalis whose remittances were discontinued.
In June 2020, the Federal Government of Somalia projected that inward remittances would fall by 40%.

**According to the Somali RSPs to whom we have spoken, remittances to Somalia dropped by about 50% during the first wave of the pandemic.**

As we know, remittance services to Somalia have also been severely impacted by bank de-risking. It therefore came as no surprise that, in the peak of the pandemic during lockdown restrictions, liquidity became an issue for this corridor. For this reason, RSPs were forced to implement limit restrictions on the value of transactions per sender until liquidity was restored.

The RSPs we interviewed said that remittance flows to Somalia are slowly increasing again, but are still far from reaching their previous levels, thus presenting a real threat to the wellbeing of millions of Somalis.

Conversely, regulators in charge have reported that remittances followed their usual counter-cyclical pattern, meaning the number of transactions increased in these difficult times. The Central Bank of Somalia has shared with IAMTN that remittance inflows to Somalia were $2,802,362,309.00 in 2020, an increase relative to 2019 and 2018 where the average was between $2.2bn - 2.3bn. Moreover, according to a news article, Somaliland’s Central Bank reported that remittances increased from $1.1bn to $1.3bn last year.

The Central Bank of Somalia has worked to facilitate remittances during COVID-19 by closely monitoring the dynamics of the sector and via the Somalia Remittance Advisory Council.

As a reaction to the global health emergency, and in order to support their clients during these difficult times, RSPs responded by drastically reducing commissions on the amounts remitted from the beginning of the crisis. As physical interactions had to be limited, companies shifted their operations to digital as much as possible, and have now observed that their clients are becoming accustomed to digital remittances. While the Somali remittance industry used to be heavily reliant on cash, our estimations show that, today, a majority of the market is digital. Mobile money penetration is very high in Somalia, with mobile operators often partnering with RSPs in order to offer money transfer services. In addition, charities frequently use mobile money solutions to transfer funds to recipients. While the digitalisation of remittances has been a common trend at the international level throughout 2020, Somali RSPs face some difficulties in offering this convenient and safe service to their customers because of certain enhanced challenges in the Somali remittance ecosystem.
4. REMITTANCE SERVICE PROVIDERS OPERATING IN SOMALIA
As explained above, remittances are vital to the livelihoods of many Somalis as well as to the economic development of the country. Since only about 15% of Somalis have bank accounts, the main financial intermediaries for sending money are RSPs, also called ‘Hawala’ in Somalia. RSPs allow Somalis to send money more safely when compared to informal methods of transmission, without interference from armed groups. These businesses provide a vital service and care deeply about the wellbeing of their customers.

The largest remittance service providers in Somalia include Dahabshiil Money Transfer, Amal Express, Taaj Money Transfer, Tawakal, and others. International money transfer companies also operate in the country. A list of the ten RSPs licensed by the Central Bank of Somalia can be found by following this link: Licensed Money Transfer Businesses. In addition, mobile money businesses are very important in the Somali remittance landscape. The Central Bank of Somalia issued the first licence to the mobile money service Hormuud in February 2021, thus bringing effective regulation to the widely used service. Hormuud Telecom's mobile money service has 3.6 million subscribers in the country, and is today the only service of this sort licensed by the Central Bank of Somalia.

Remittance companies licensed by the Bank of Somaliland include Dahabshiil Money Transfer, Amal Express and Iftin Express: the full list can be found at the following link: Licensed remittance companies. The Bank of Somaliland has licensed three mobile money service providers, the largest being Zaad, which was launched in Somaliland by the mobile operator Telesom in 2009. In 2018, it was used by roughly one quarter of the nation’s population. Zaad works with WorldRemit, with customers able to use the WorldRemit digital wallet to send, receive and store money securely. E-Dahab and Golis Somaliland are the two other mobile money services licensed in Somaliland. Mobile money is today the most common way of receiving remittances in Somalia, owing to its simplicity and low barriers to access. According to data from Altai Consulting and the World Bank, the penetration of mobile money in the country is about 73% for the population aged over 16. In urban areas, this figure rises to 83%, while it is 55% in rural areas and about 72% in camps of internally displaced persons. According to Hormuud, more than two thirds of payments...
RSPs serving Somali clients are regulated either by the Central Bank of Somalia (CBS) or the Bank of Somaliland, depending on where their businesses are located and operating. Additionally, the State Bank of Puntland is a state-owned entity that acts as a fiscal agent to the Puntland State of Somalia. The central banks issue licences enabling money transfer businesses and mobile money services to operate, based on a strict examination. According to the outcome of this examination, the central banks will issue a report about the company of interest.

The regulators are becoming more and more strict about compliance with AML (Anti Money Laundering)/CFT (Counter Financing of Terrorism) requirements. Compliance with such requirements is very costly for RSPs, but helps to guarantee the safety and transparency of remittances. In this way, it is ensured that all RSPs who operate in Somalia do not represent a higher than average risk of breach of the AML/CFT regulations in place. IAMTN was told by the CBS that it considers remittances to be a policy priority, because of the power remittances have to lessen the impact of economic shocks in the country. The CBS uses a three-level supervisory framework.
First, the Licensing and Supervision Department (LSD) of CBS conducts periodic financial sector outreach activities, which are aimed at promoting adherence to existing financial sector regulations and laws through information sharing, training, stakeholder consultations and the issuance of industry guidelines. Secondly, the LSD performs routine risk-based examinations to ensure adherence to financial sector laws and regulations.

Finally, the team monitors and analyses industry practices and trends through regular reporting requirements and follow-ups.

While money transfer businesses have been regulated for many years, the development of regulation for mobile money services by the CBS is very recent. The CBS’s mobile money regulations (CBS/NBS/REG/06), which were amended in 2020, detail the procedures for licensing of mobile money services, rules on their conduct of business (capital and liquidity requirements, security requirements...), as well as a detailed explanation of the supervision activities by the central bank. The CBS requires mobile money service businesses to report information such as the volume of transactions, the value of transactions, incidents of fraud, theft or robbery, and other information every month, as well as provide a more detailed annual report. Although mobile money services emerged about ten years ago, the CBS then had no clear regulations which applied to them. The new regulations, by formalising digital transactions and boosting confidence, are expected to increase the integration of the Somali financial system with the international financial system.
Even though remittances are so important for Somalia, and the financial and regulatory system is becoming more effective, RSPs face many challenges operating in Somalia, owing to issues with banks and international regulators.

It is becoming increasingly difficult for RSPs to obtain bank accounts, even though these are a prerequisite in order for RSPs to operate. This is due to bank de-risking, defined by the Financial Action Task Force (FATF) as “the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF’s risk-based approach”. The reputation of RSPs suffered from the 9/11 attacks, after which the US government terminated the activities of Al-Barakaat, an RSP serving the Somali community, without finding any evidence on whether or not it actually contributed to the financing of terrorism.
During the pandemic, when borders were closed temporarily, this resulted in major cash flow issues. De-risking threatens not only the operations, but also the entire business. In fact, without a bank account, the companies face difficulties to pay for staff salaries, supplies, bills, and other expenses.

As remittances are so vital, when they cannot be sent through formal channels, de-risking drives financial transactions underground to less regulated or unregulated channels. This results in reduced transparency, which undermines AML/CFT goals and therefore increases risk. Therefore, solving the issue of bank de-risking would be beneficial to all the parties involved, in particular the Somali population as well as the money transfer businesses.

One of the biggest RSPs in Somalia shared with us the concept that KYC (Know Your Customer) requirements are still too limited on the receiving side. In fact, currently only customers who are willing to do so are uploading copies of their IDs on RSP’s digital platforms. The belief is that stricter regulations in terms of KYC would increase global trust in the money flows directed towards Somalia, and therefore become key for solving the issue of bank de-risking.

There is still no data on how bank de-risking is impacting cross-border remittance flows, but it is clear that the issue continues to pose a significant challenge for the financial sector in Somalia.
Remittances are of major importance for the Somali population.

The country has been struggling with long years of conflict and uncertainty, and has difficulty recovering owing to the difficult economic situation coupled with the lack of infrastructures, tough climate conditions, and the serious impact of the worldwide COVID-19 pandemic.

The Somali diaspora is well aware of these difficulties, and has been a vital source of support for loved ones back home. RSPs and mobile money services are the intermediaries who allow these flows to go from the senders abroad to the recipients in Somalia, either in cash or digitally. However, RSPs have been facing difficulties in retaining their bank accounts, thus creating challenges for them to operate. De-risking creates inefficiencies in the entire Somali remittance ecosystem, which results in a negative impact on the end customers, namely the Somali population. In order to reduce those frictions, US and European governments need to facilitate payment mechanisms for Somali RSPs, and banks should make efforts to onboard as clients those RSPs who comply with AML/CFT regulations.

The Somali regulators are working constantly to improve the national regulatory framework for money transfer businesses and mobile money services, by increasing supervision and compliance. Efforts from all the parties involved in the ecosystem can have a massive impact on the remittance industry in Somalia, by making remittance flows safer, cheaper and more transparent. These collective efforts will improve the lives of millions of Somalis.
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ABOUT

Caleta is an independent research and development company founded in 2017. We conduct research and promote concrete solutions for more inclusive and responsible finance at the global level. Our mission is to empower people by enabling access to financial services. We collaborate with all the stakeholders of the cross-border payments industry to reach this goal, as part of the global efforts towards reaching the Sustainable Development Goals.

The data collected and generated by Caleta makes unprecedented knowledge available to the industry, which provides new insights and new solutions to existing challenges.

The International Association of Money Transfer Networks (IAMTN), a not-for-profit membership organisation, is the only global trade association that represents the cross-border payments industry. IAMTN’s members include, inter alia, banks, payment institutions, electronic money organisations and mobile operators.

Founded in 2005, IAMTN provides a platform for industry partners to come together to discuss common challenges and industry initiatives, and to create opportunities.

IAMTN works closely with governments, regulators, and all other important stakeholders - such as the FATF, FSB, World Bank, International Fund for Agricultural Development (IFAD), UNCDF, Swiss Agency for Development and Cooperation, UK Foreign, Commonwealth and Development Office, African Union - to champion the creation of the most effective, safe, reliable and efficient payment systems and mechanisms for migrants globally.