

# SOMALI GOVERNANCE BRIEFS



**Photos:** *Left:* Stacks of Somali Shillings; *Next Page:* Moneychangers in Somaliland (by najeeb)

## LEGAL FRAMEWORKS GOVERNING SOMALIA'S CURRENT FINANCIAL SYSTEMS

### Overview

The government framework for banking in Somalia was largely destroyed during the conflict of the last 20 years. The civil war also forced hundreds of thousands of Somalis to leave and start new lives abroad. As they became settled, many sought to send money home, and a growing group of Somali entrepreneurs worked to facilitate these transactions. With no banks in Somalia to receive outside wire transfers, these business people established their own systems for getting money into the country.

In general, the process begins when a person in Europe, North America, or elsewhere, gives a deposit to a Somali money transfer company. The company then contacts an agent in Somalia who is close to the intended recipient and instructs that the money be distributed. At a later point, the money transfer company bundles together its deposits and wires them, usually through a major bank, to a clearinghouse generally located in a Gulf country. The money is then converted to Somali shillings and sent into Somalia. Overall the system is faster, cheaper and capable of reaching

more people than traditional wire transfer companies.

### Laws Affecting Somali Money Transfers

Somali money transfer companies emerged during a period of increasing concern about international money laundering and the financing of crime and terrorism. In 1990, the Financial Action Task Force (FATF), an intergovernmental panel of mostly developed countries, issued the *FATF Forty Recommendations* to provide best practices regarding laws,

### KEY REPORTS

Manuel Orozco and Julia Yansura – [\*Keeping the Lifeline Open: Remittances and Markets in Somalia\*](#) (Oxfam America, Adeso, Inter-American Dialogue, July 2012)

James Cockayne with Liat Shetret – [\*Capitalizing on Trust: Harnessing Somali Remittances for Counterterrorism, Human Rights and State Building\*](#) (Center for Global Counterterrorism Cooperation, 2012)

## Key Laws

### INTERNATIONAL GUIDELINES

#### Financial Action Task Force (FATF)

[40 Recommendations](#) (1990, revised)

[IX Special Recommendations](#) (2001, revised)

### FOREIGN LAWS AFFECTING SOMALI MONEY TRANSFERS

The following are official overviews of relevant laws and guidance on compliance

#### United States

[Money Laundering Prevention: A Money Services Business Guide](#) (U.S.

Department of Treasury)

#### United Kingdom

[Anti-money laundering guidance for money service businesses](#) (HM Revenue & Customs)

### SOMALI LAWS

#### Somali Federal Government

[The Central Bank of Somalia Act](#), No. 130 of 22 April 2011

[Financial Institution Law](#), No. 130 of 22 April 2012

#### Somaliland Government

[Somaliland Central Bank Law](#) (Law No. 54/2012); Only in Somali

[Somaliland Islamic Banking Law](#) (Law No. 55/2012); Only in Somali



regulations, and institutions for combatting money laundering. Over 130 countries have endorsed these recommendations and moved to implement them domestically. After the attacks of September 11, 2001, FATF issued an additional *IX Special Recommendations* to address terrorism financing.

Domestic regulations that accompany the FATF framework have numerous implications for Somali money transfer companies. These regulations generally oblige money transfer companies to:

- register with the government;
- perform customer due diligence;
- ensure money is not going to terrorist groups or individuals;
- keep records regarding transactions above a certain threshold; and

- report suspicious activity to the government.

Most Somali money transfer companies have put plans in place to comply with these laws, and there have been very few prosecutions of Somali money transfer companies.

Today, Somalia is beginning to emerge from civil war and rebuild its institutions, including its banking system. While there are still no formal commercial banks in Somalia, both the northern region of Somaliland and the Federal Government have passed laws establishing central banks and frameworks for commercial banks that could eventually process international wire transfers.

- Jim Burman, July 2013

**Note:** Information comes from reports listed above and to the left.