Supporting the Central Bank of Somalia's regulation of mobile money to strengthen and safeguard remittances

Presented to

Governor of the Central Bank of Somalia

Mr. Bashir Issa Ali

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The ACP EU Migration Action is an initiative launched by the ACP Secretariat, funded by the European Union (EU) and implemented by the International Organization for Migration (IOM) providing direct technical assistance to ACP Governments on the areas of visas, remittances, readmission, trafficking in human beings and smuggling of migrants.

ACP EU MIGRATION ACTION

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EXECUTIVE SUMMARY

Somalia is experiencing a remarkable recovery from decades of war and instability. Moving forward it is essential for the country to develop a strong and sound financial system which is up to international standards in terms of efficiency, transparency and regulation. One key element of the Somali financial system is mobile money. Mobile money allows Somalis to store money, as well as to receive and make payments. This is a major development for a country that lacks a strong currency, remains unsafe in many regions and in which 90% of the population does not have a bank account. Two out of every five adults in Somalia reported having a mobile money account in 2014. However, the mobile money sector in Somalia remains unregulated and this has raised concerns about issues related to security, criminal activity, customer protection, taxation and state authority, among others.

Somalia is also a major receiver of remittances. The country receives an estimated remittance inflow of over $1 billion each year, close to one quarter of GDP, from around 2 million Somalis spread around the world. There is substantial space for the link between remittances and mobile money in Somalia to be further developed. Most remittances transactions are small transfers that could be delivered via mobile money and a sound regulatory system is essential to make this happen.

This report provides recommendations to the Central Bank of Somalia to strengthen the proposed regulation of mobile money in the country. These recommendations are provided with the purposes of strengthening and safeguarding international remittances. There are other areas of this regulation that are currently being evaluated and supported by other organizations such as the World Bank. Also, the regulation of the mobile money market in Somalia is closely linked with the regulation of the communications sector that is currently being developed. The discussion mainly focuses on the case of South and Central Somalia. The case of Somaliland, where the remittances and mobile money markets are more integrated, is used as a case study in the report. The report

provides recommendations in four areas: currency, customer identification, transaction limits and integration with other initiatives.

SUMMARY OF GENERAL RECOMMENDATIONS

CURRENCY

The role of different currencies, including the Somali Shilling, should be clearly specified in the regulation. Mobile money transactions are currently denominated in USD, but the Central Bank of Somalia plans to print new currency in the near future. It is important for the regulation to explicitly state the currencies in which individuals can hold money in their mobile accounts and the rules for determining the rate of conversion between currencies. Currency is a key factor for the proper functioning of the remittances market, as many international transactions of this type take place between two or more currencies. In Somaliland, where the remittances and mobile money markets are more integrated, there has been substantial policy discussion about the currency implications of large sums of USD entering the country on a daily basis via remittances. The role of currency in the regulation should also be revised annually after the regulation is adopted to ensure that is in accordance with developments related to the Somali Shilling.

CUSTOMER IDENTIFICATION

The customer identification requirements of the regulation should be clarified, specifically stated and adjusted to the reality of Somalia, a country in which a large share of the population lacks an official form of identification. It is also important to clarify the identification requirements that will be applied retroactively to those who already hold mobile money accounts. One possibility for encouraging Somalis to obtain identity documents is to have different monetary transaction limits for those accounts in which the customer has provided an official identity document. Customer identification (and lack of) is of great importance for remittances as this is one of the reasons provided by banks and government organizations in sending countries to consider remittances to Somalia as risky transfers. The international remittances market will be closed to Somali mobile money companies as long as there is no appropriate identification of customers. The rules regarding customer identification should also be revised annually as there are several initiatives in place to increase the share of the Somali population that has an official identity document.

TRANSACTION LIMITS

It is common for financial transactions to have a maximum transfer amount for security reasons, even in cases in which both sides of the transaction can be identified. In the current regulation draft there are limits being proposed by transaction and monthly total, but the amounts are not defined yet. The transaction limit should *at least* allow for a monthly total of $600 and individual transactions of $200 which is the average value of remittances sent to mobile money accounts in a context similar to that of South and Central Somalia. If for any reason a lower limit is preferable for domestic transactions, the regulation could include higher transaction limits for international transactions in order to protect the remittances market. It is important to adjust these limits over time. As mobile money operators in Somalia establish formal partnerships with remittances companies abroad, consumer demand for higher transaction amounts of remittances is likely to grow.

COORDINATION WITH BROADER REMITTANCES RELATED INITIATIVES

The World Bank has appointed a private company to act as a "trusted agent" and assist the Central Bank of Somalia in regulating and supervising remittances companies. The World Bank has also been assisting the Central Bank of Somalia in drafting and implementing new regulations and guidelines for the remittances market. It is important for the process of implementation of the mobile money regulation to be closely linked with new regulation of the remittances industry.

ABBREVIATIONS

ACP-EU = African, Caribbean and Pacific Group of States – European Union

AMISOM = African Union Mission in Somalia

AML = anti-money laundering

AU = African Union

CBS = Central Bank of Somalia

CFT = counter financing of terrorism

FGS = Federal Government of Somalia

FSNAU = Food Security and Nutrition Analysis Unit for Somalia

IOM = International Organization for Migration

KYC = Know Your Customer

MPT = Ministry of Post and Telecommunications

MoF = Ministry of Finance

MTBs = money transfer businesses

SEK = Swedish Krona

TFG = Transitional Federal Government

UN = United Nations

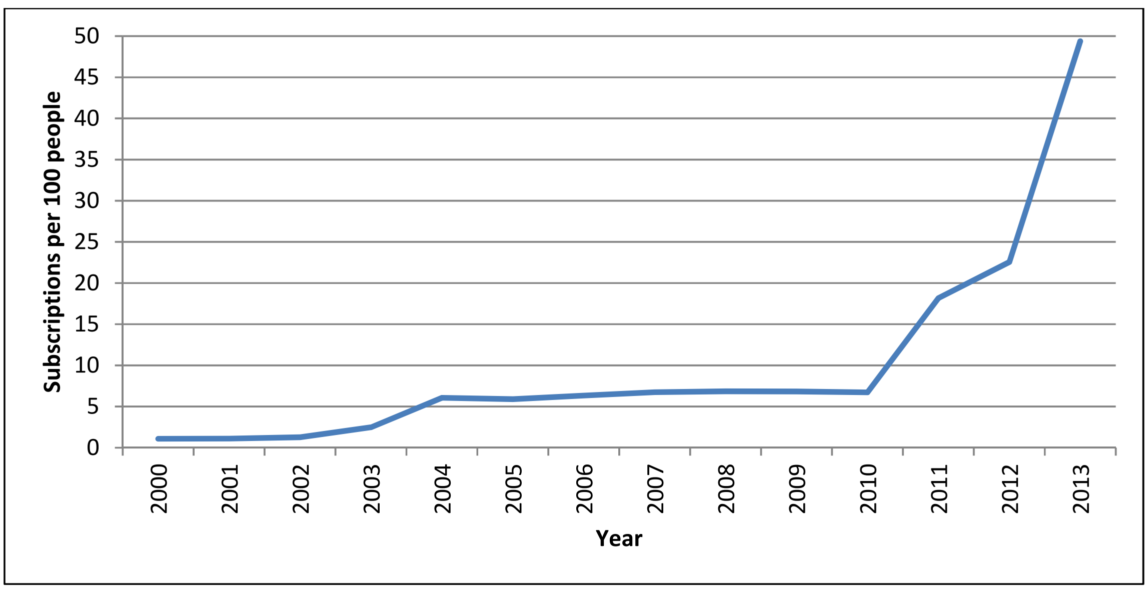
USD = US dollar

I. INTRODUCTION

Somalia lacks a strong formal banking system and estimates suggest that over 90% of Somalis do not have a bank account (World Bank, 2015a). Traditionally many of the large monetary transactions in the country were made in cash, an inefficient method that is further complicated by the lack of a strong national currency. Until recently the only alternative to cash was to use hawala operators to hold and transfer money.

In recent years mobile penetration has increased substantially in Somalia, going from one mobile cellular subscription per one hundred people in 2000 to forty-nine subscriptions per one hundred people in 2013 (see Figure 1). In fact, the per capita number of mobile cellular subscriptions in Somalia is higher than in several other countries of the region (e.g. Djibouti, Ethiopia).The increased availability and popularity of mobile phones in Somalia has also lead to the development of an alternative means of payment: mobile money.

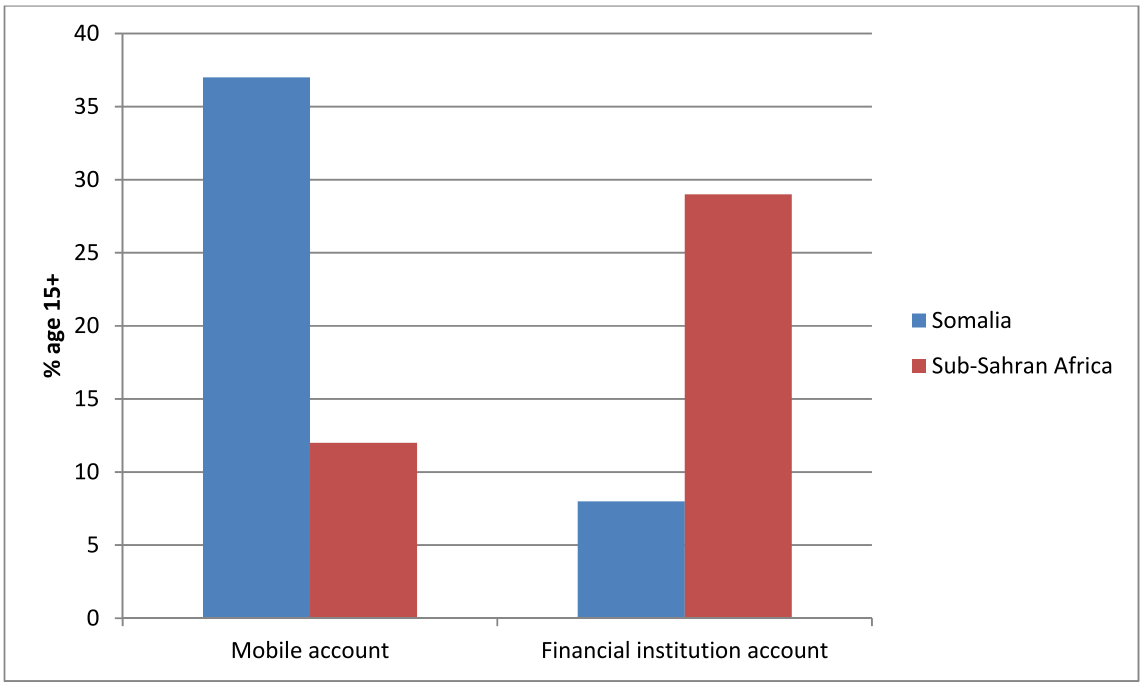
Figure 1 - Mobile cellular subscriptions in Somalia (per 100 people)



Source: World Bank (2016a).

Mobile money is an alternative to bank accounts in countries in which a high share of the population is unbanked. In addition to serving as a mechanism of payment, mobile money accounts provide a safe way for Somalis to store money, a key advantage in a country in which carrying large sums of cash can easily lead to being a target of robberies. Mobile money has become an important component of the Somali economy. Somalia is just one of thirteen countries in the world in which the share of adults with a mobile money account is 10% or greater (World Bank, 2015a). An estimated 37% of Somali adults had a mobile money account in 2014 (see Figure 2). International organizations and NGOs are also using mobile money to distribute emergency cash relief around the country (Orozco and Yansura, 2013).[1] This has eliminated the need for Somalis to undertake dangerous trips and wait in long lines in order to benefit from cash assistance programmes.

Figure 2 – Mobile accounts and financial accounts in Somalia and Sub-Saharan Africa



Source: World Bank (2015a).

There are at least five companies that offer mobile money services in Somalia at the moment. Some of these have a regional reach (EVC Plus, Sahal, ZAAD), while others provide countrywide services (E-Dahab, E-MAAL). Table 1 provides a list of the main mobile money services. Also, as explained in Box I, the mobile money services provided by these companies differ in relation to important factors that affect customer protection.

[1] It is also common for international organizations to use hawalas for this purpose.

Table 1 – Companies offering mobile money services in Somalia

Company	Service	Region	Link
Hormuud	EVC Plus	South and Central	https://www.hormuud.com/personal/services/evc-plus.aspx
Golis	Sahal	Puntland	http://golistelecom.com/en/our-services/sahal-service/
Somtel	E-Dahab	South and Central, Somaliland, Puntland	http://www.somtelnetwork.net/e-dahab-mobile-money/
Nationlink	E-MAAL	South and Central, Somaliland, Puntland	http://nationlinktelecom.com/nationlink/index.php/e-maal/
Telesom	ZAAD	Somaliland	http://www.zaad.net/

BOX I – DEFINITION OF MOBILE MONEY

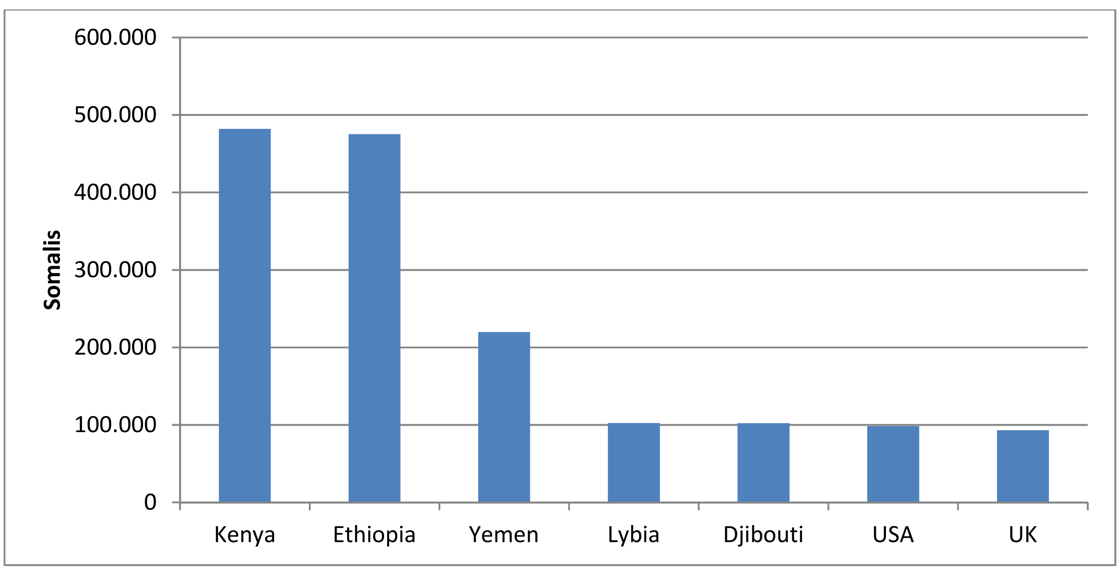
There are several possible definitions of mobile money. For instance, GSMA (2010) defines mobile money simply as "a service in which the mobile phone is used to access financial services". The World Bank (2015b) defines mobile money as a "E-money product where the record of funds is stored on the mobile phone or a central computer system, and can be drawn down through specific payment instructions issued from the bearers' mobile phone."

As explained by Mohamed Ibrahim, while he was Minister of Posts and Telecommunications, in Somalia the exact meaning of mobile money and service offered varies per company (Ministry of Post and Telecommunication, 2014). Under the system used by some mobile money providers in Somalia (for example, EVC Plus, E-MAAl, E-Dahab), airtime credit is used as a form of mobile payment between users, but there is no actual bank guarantee underlying the credit and, as such, there is a lack of certainty for the customer that the credit can always be redeemed for cash. This differs from the definition of mobile money in other contexts, such as the case of MPesa in Kenya in which there is a parallel bank guarantee of the money. MPesa funds are not held by Safaricom, the mobile network operator. The funds are held by a trust and deposited in commercial banks. In the event of Safaricom going out of business the money would be protected and creditors of Safaricom would not have a claim to the funds of MPesa customers. Other mobile money providers in Somalia (for example, ZAAD and Golis) offer a service that is closer to the MPesa model in which there is a separation between "airtime credit" and "mobile wallet" transactions.

Another key factor about Somalia is the large number of Somalis living outside the country. This large stock of emigrants is the result of large migration flows to the Gulf region for work purposes during the 1970s and 1980s and the massive exodus of refugees since the early 1990s (Ahmed, 2000). There is substantial evidence that those who left the country to seek sanctuary in other countries, including those living in refugee camps, send money home on a frequent basis (Horst, 2006; Rawlence, 2016; Vargas-Silva, 2016).

According to the World Bank (2013) close to 2 million Somalis lived outside the country in 2013. This is a substantial number given that the estimated population of the country is close to 12.3 million (FSNAU, 2016). In addition to neighbouring states such as Kenya and Ethiopia which host over 400,000 Somalis each, countries such as the United Kingdom and the United States are also major hosts of Somalis, both countries host close to 100,000 each (Figure 3).

Figure 3 – Somalis abroad (2013)



Source: World Bank (2013).

There is no precise estimate of remittance flows to Somalia, but existing estimates suggest that Somalis abroad send over $1 billion back home every year, which accounts for close to one quarter of the country's GDP (Hammond et al., 2011; Orozco and Yansura, 2013). This money comes from all parts of the world. For instance, Carling, Binvand, and Horst (2012) estimate that 74 percent of Somalis in Norway send money home. Moreover, 38 percent of Somalis in Norway sent remittances on a monthly basis. For the United Kingdom, Lindley (2009) finds that 61 percent of the Somalis who were interviewed remit money home on a monthly basis. Many of the recipients of remittances in Somalia are in rural areas and the estimated rural-urban remittances payout ratio in the country is 64%, the second highest in Eastern Africa (IFAD, 2009). Remittances are important for many Somali families to cover essentials needs including food and shelter and played a major role in supporting Somalis during the recent drought that the country experienced (Orozco and Yansura, 2013).

BOX 2 – DEFINITION OF REMITTANCES

IOM defines remittances as "multidirectional, voluntary, and private international monetary transfers that migrants make, individually or collectively, to people with whom they maintain close links" (IOM, 2015). The World bank (2007) defines remittances as "cross-border person-to-person payments of relatively low value." As such, this World Bank definition of remittances is not limited to transfers from migrants. The discussion in this report uses the IOM definition of remittances and focuses on transfers from migrants.

Mobile money is becoming important for remittances to Somalia. At the moment it is straightforward to remit money to mobile accounts in Somaliland using services such as World Remit which instantly credits Telesom ZAAD mobile money accounts in Somaliland (discussed in detail below). In South and Central Somalia the integration of the remittances and mobile money markets has been slower due to the lack of regulation and identification of customers. However, stakeholders interviewed for this report confirmed that it is still possible to have remittances deposited in mobile money accounts in these regions. In this case the transfer works as two separate transactions: an initial international transfer and a follow-up domestic transfer. For example, a hawala in South and Central Somalia receives the initial international transaction and then sends the money to a designated mobile money account. Alternatively, the remittance money could be received in a mobile money account is Somaliland and then send via mobile money transfer to an account in South and Central Somalia.

By most accounts the mobile money market in Somalia has been very successful. It provides an inexpensive (largely free), efficient and reliable service to customers. However, the mobile money industry in Somalia remains unregulated. The lack of regulation has raised concerns about issues related to security, criminal activity, customer protection, taxation and Government authority, among others. These concerns are similar to those which have affected the Somali international money transfer sector during recent years and have led to concerns about the possible collapse of the remittances industry in the country.

The Federal Government of Somalia (FGS) came to power in 2012 (see Box 3). The goals of the FGS include improved governance and transparency. In this context regulating the mobile money market plays a key role. The Central Bank of Somalia (CBS) is the institution with the legal authority to regulate the mobile money market in the country (see Box 4). The CBS has already developed a preliminary draft of this regulation (see Appendix 1).

This report comes as a response to a request for technical assistance from the FGS and CBS to the ACP-EU Migration Action, an initiative implemented by the International Organization for Migration (IOM).[2] The ACP-EU Migration Action provides technical assistance for ACP Governments and Regional organizations and funding for Non State Actors in the areas of visas, remittances, readmission, trafficking in human beings and smuggling of migrants.[3] The interest in this project comes from the need to ensure that the new mobile money regulation strengthens and safeguards remittances in Somalia. As such, this report does not cover issues related to the overall regulation of mobile money in Somalia, but focuses on issues which directly affect international remittances.

The discussion in this report is based on desk research and semi-structured interviews with stakeholders conducted in Kenya, Somalia and the United Kingdom during the period of January to

[2] African, Caribbean and Pacific Group of States (ACP) – European Union (EU).
[3] Please visit http://acpeumigrationaction.iom.int/about-action for more information on the ACP-EU Migration Action.

June of 2016. Appendix 2 contains a list of the stakeholders consulted and Appendix 3 provides the guide questions used during the interviews. Due to the delicate nature of the subject the report does not attribute any statements directly to any of the stakeholders/organizations. The report focuses on four key issues of the draft regulation: currency, customer identification, transaction limits and integration with other initiatives.

Finally, it is important to note that regulation of the mobile money market in Somalia is also closely linked with the Ministry of Posts and Telecommunications (MPT), which is the communications regulator in the country, and the Ministry of Finance (MoF), which leads the work on economic planning. There are initiatives of the World Bank and other stakeholders related to this regulation and there is legislation under consideration in the Somali parliament regarding the regulation of the communications sector.[4]

[4] See http://blogs.worldbank.org/ic4d/supporting-ict-sector-somalia for further details of the World Bank communications project.

BOX 3 – FEDERAL GOVERNMENT OF SOMALIA (FGS)

Mohamed Siad Barre was President of Somalia from 1969 to 1991. The Barre Government was overthrown in 1991. Following the downfall of the Barre regime there was a power vacuum in Somalia, a period of continuous political turmoil and an absence of a central government. During this period, Somalia was often described as a "failed state". During the 1990s two northern regions of the country, Somaliland and Puntland, established their own governments. In the case of Somaliland, the region declared independence from the rest of Somalia, but it is not recognised internationally as an independent country.

The Federal Government of Somalia (FGS) was established in 2012 with a four-year mandate under a new provisional constitution. The FGS replaced the interim Transitional Federal Government (TFG) and is the first permanent central government of Somalia since 1991. The current President of Somalia is Hassan Sheikh Mohamud (since 2012) and the country is getting ready for parliamentary and presidential elections later in 2016. The President, as well as many of the ministries, are based at Villa Somalia, the presidential palace in Mogadishu. See http://www.villasomalia.gov.so/ for more details about the FGS. The UN recognizes the FGS as the legitimate government of Somalia.

The FGS is currently supported by the African Union Mission in Somalia (AMISOM) a peacekeeping mission operated by the African Union (AU) with the approval and support of the UN in Somalia. AMISOM leads the battle against the militant group Al-Shabaab as part of its mandate to take all necessary measures, as appropriate, and in coordination with the Somalia National Defence and Public Safety Institutions, to reduce the threat posed by Al Shabaab and other armed opposition groups. This is connected with mobile money as in the past Al-Shabaab has "outlawed" mobile money transactions in territories under their controlled. See http://amisom-au.org/ for more details about AMISOM.

BOX 4 – CENTRAL BANK OF SOMALIA (CBS)

The Central Bank of Somalia (CBS) is the monetary authority of Somalia. The CBS was established during the 1960s, but ceased operations during civil war period. It was re-opened by the TFG. The CBS is led by a Board of Directors, a Governor and a Deputy Governor. The Governor serves as Chairman of the Board and is the Chief Executive Officer for the Bank. Mr Bashir Issa Ali is the current Governor of the CBS. The first goal of the CBS for the 2013-2018 period is to "formalize financial institutions" (Central Bank of Somalia, 2013). In order to achieve this goal the CBS aims to:

- "Improve legal and regulatory frameworks".
- "Institute supervision and licensing of financial institutions".
- "Develop and maintain an appropriate monitoring and reporting mechanism that will provide reasonable assurance on the extent of compliance and effectiveness of oversight".

The work presented in this report falls under the first goal. The CBS has already licensed at least nine hawalas and six banks:

http://www.centralbank.gov.so/hawalas.html

http://www.centralbank.gov.so/banks.html

The other key goals of the CBS for the 2013-2018 period include:

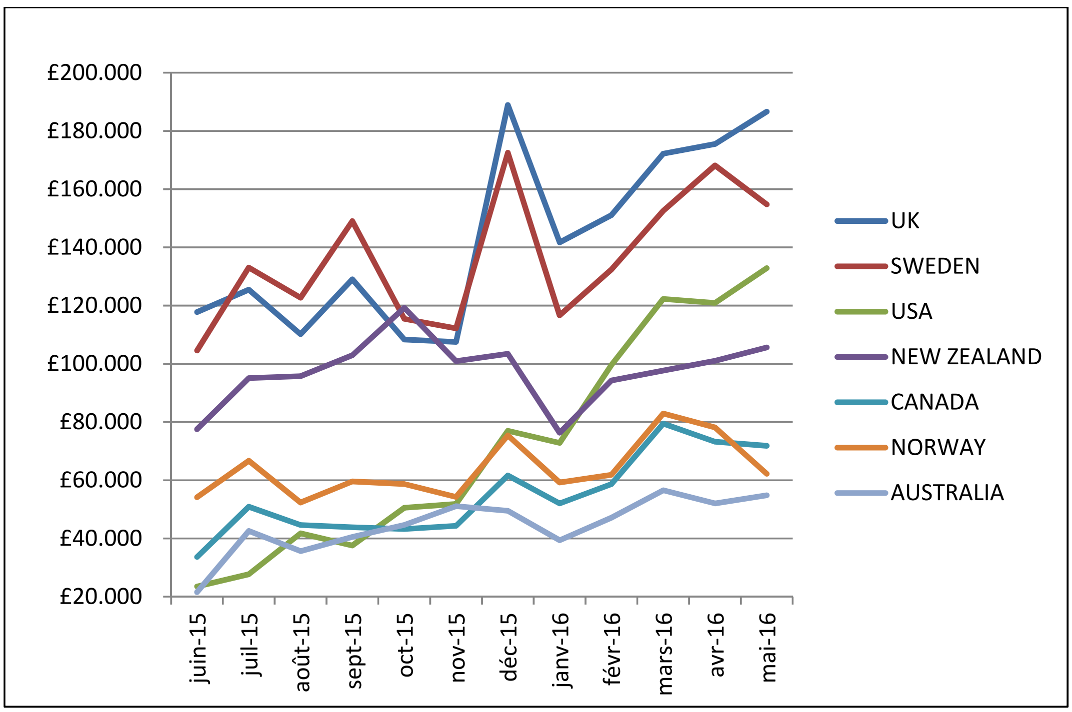
- Effective monetary policy
- Build strong banking operations foundation
- Increase organizational effectiveness
- Strengthen reporting and transparency
- Promote good governance

See the 2013-2018 Strategic Plan of the Central Bank of Somalia (2013) and its website http://www.centralbank.gov.so/index.html for more details about the CBS and its future goals.

II. CASE STUDY: WORLDREMIT AND ZAAD IN SOMALILAND

An example of a successful business model linking remittances and mobile money in a context similar to that of South and Central Somalia is the partnership between WorldRemit and ZAAD in Somaliland (https://www.worldremit.com/en/Somaliland). WorldRemit is a company specialised in online money transfers. The company allows customers in 52 countries to send money to Somaliland. Over GBP 8 million (about $12.8 million) were sent to Somaliland using WorldRemit in the year to May 2016 (i.e. June 2015-May 2016). As shown in Figure 4, the main sending countries of remittances to Somaliland via WorldRemit are the United Kingdom, Sweden, United States, New Zealand, Canada, Norway and Australia. WorldRemit personnel interviewed for this report suggested that these countries reflect the overall penetration that WorlRemit has in each country.

Figure 4 – Monthly flow of remittances from WorldRemit to ZAAD



Source: Data provided by WorldRemit to the author.

Table 2 reports the percentage cost of sending money to Somalia as reported in the World Bank's Remittance Prices Worldwide data. While the data is not disaggregated by region of Somalia (for instance, there is no separate data for Somaliland) it is possible to observe that WorldRemit offers prices that are lower than other competitors in the market. Moreover, as shown in Figure 5 a simple comparison of the cost of sending GBP100 to Somaliland using WorldRemit and Dahabshiil suggests that WorldRemit is less expensive.

Table 2 – Costs of sending money to Somalia using different companies

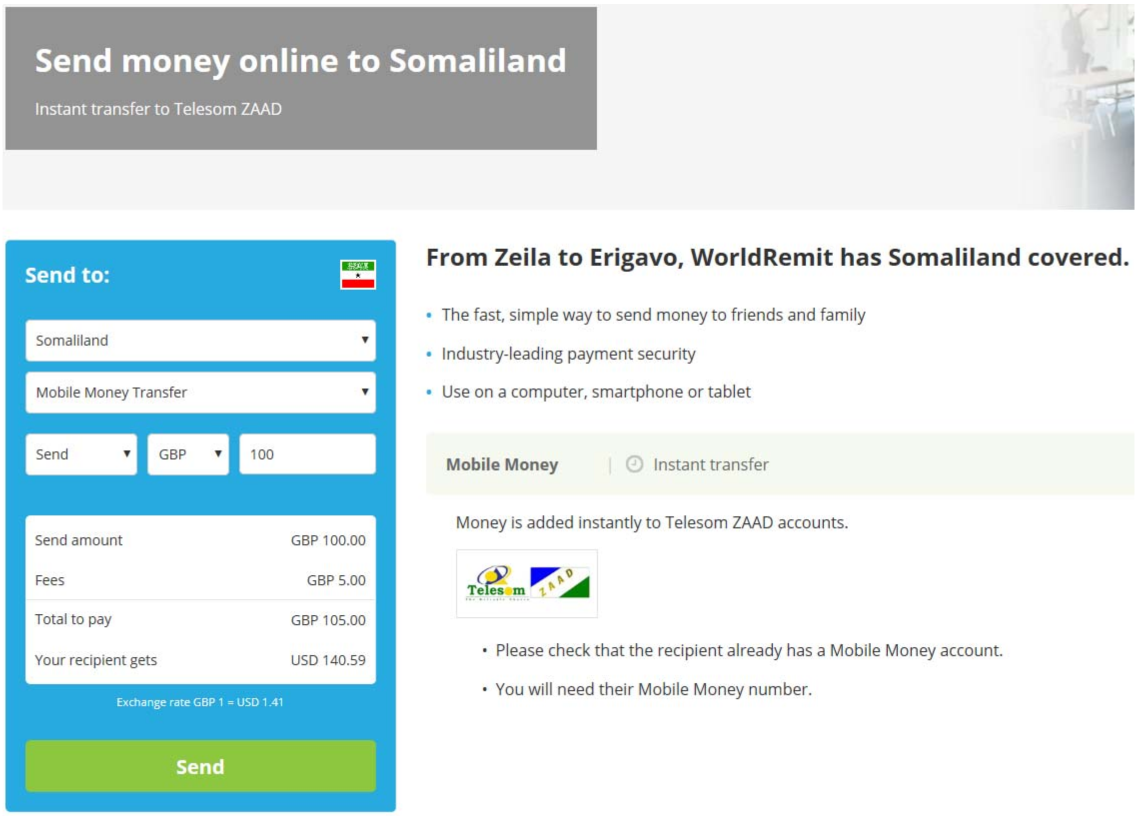
	Total percent cost by sending country	
Company	United Kingdom (send GBP120)	Sweden (send SEK 1,700)
WorldRemit	6.59%	5.94%
Dahabshiil	7.38%	12.94%
Amal Express	7.38%	12.94%
Iftin Express	7.38%	14.79%
Kaah Express	10.18%	15.64%

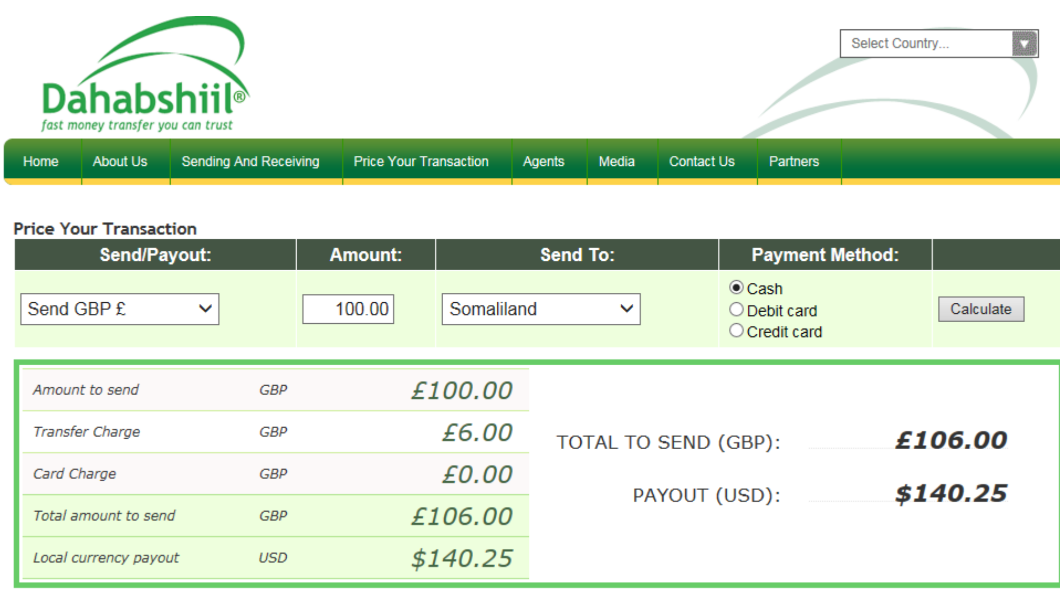
Source: Remittance Prices Worldwide: https://remittanceprices.worldbank.org/en

ZAAD has a long-term relationship with Home Send (https://www.homesend.com/) a company that specializes in enabling money transfers and payment services. Home Send acts as an intermediary between WorldRemit and ZAAD. WorldRemit has all the information on the sender and facilitates the initial transaction. It is necessary for WorldRemit customers to have a bank account in the sending country and to have the ZAAD mobile money account information of the receiver (that is, mobile money number). ZAAD has information on the mobile money receiver. The sender of the money can only send in the currency of their registered country (for instance, if you live in Sweden you must send in SEK). The money is always received in USD in Somaliland. WorldRemit informs the sender of the exchange rate and fee that is used for the transaction (see Figure 5).

During the interview for this project the WorldRemit staff suggested that the reason they send money to Somaliland is that they feel confident that ZAAD complies with all AML/CFT regulations and were able to take advantage of the established relationship between Home Send and ZAAD. Home Send is the intermediary for all monetary transactions between WorldRemit and ZAAD.

Figure 5 - Print screens of mobile money transfer to Somaliland from World Remit and Dahabshiil





Note: information collected on 17 June 2016.

The Government of Somaliland established the Bank of Somaliland in 1994 and recognizes this institution as the monetary authority of the region. When ZAAD was launched Telesom was granted a remittance license by the Bank of Somaliland (Pénicaud and McGrath, 2013). The remittance regulation did not provide guidelines on the provision of mobile money services and it was up to Telesom to comply with international standards. The initial interest of Telesom to comply with international standards (for example, AML guidelines) was the expectation that in the future the service was going to play a role in the international remittances market (Iazzolino, 2015). At the moment mobile money transactions in Somaliland remain largely unregulated.

Every ZAAD customer is subject to identification procedures to confirm his/her identity. Every customer's proof of identity is stored digitally, together with a photo of the customer. The proof of identity can take different forms such as a national ID card, passport or letter of reference from a known customer. In addition, all Telesom ZAAD agents are trained annually on Telesom's Know Your Customer (KYC) compliance and procedures (Pénicaud and McGrath, 2013).

III. THE DRAFT REGULATION: SOME KEY ASPECTS FOR REMITTANCES

The full draft regulation of mobile money is included in Appendix 1. This authority of the CBS to regulate the mobile money market is based on the Financial Institutions Law (Law No. 130 of 22 April 2012). The proposed regulation would apply to the whole mobile money market and specifies that "no person shall conduct the business of mobile money unless that person is authorised to do so under this Regulation". This means that all companies offering mobile money services, including those offering international transfers related to mobile money, would be covered by the regulation.

The regulation defines the business of a mobile money provider as: "the business of issuing mobile money and includes the issuance of mobile money against <u>currency of Somalia</u> received as well as the redemption of mobile money for <u>currency of Somalia</u> and includes the provision of closely related ancillary services in respect of the issuing of e- money as well as the operational services of the mobile money provider" (underlined added by author). In the regulation "mobile money" is defined as monetary value as represented by a claim on its issuer, that is: "(a) Electronically, including magnetically, stored; (b) Issued against receipt of <u>currency of Somalia or such kind</u>; and (c) Accepted as a means of payment by persons other than the issuer" (underlined added by author). The role of currency in the regulation is particularly important in the context of remittances, as these transfers typically involve transactions in two or more currencies.

The regulation imposes a series of compliance requirements which include: that every mobile money account shall be subject to an individual and monthly transaction/load limits (<u>defined in USD</u>) and that providers need to maintain accurate and complete records of the <u>identity of mobile money holders</u>. Identification of customers (or lack of) is of great importance for remittances as this is one of the reasons provided by banks and governments in sending countries to consider monetary flows to Somalia to be risky transfers (that is, risk that the money may end up financing extremist groups and/or criminal elements).

The regulation also includes a section on customer protection, which includes factors such as that: "mobile money may be redeemed at any time at par value" (underlined added by author).

IV. RECOMMENDATIONS

CURRENCY

The close association between currency and mobile money was mentioned repeatedly by the stakeholders interviewed as a key area of the regulation. Currency is a particular important topic in the Somali context. The Somali conflict, which started in the early 1990s, and the related collapse of the state meant that for decades the Somali Shilling was not backed by a stable government or credible monetary authority. Also, large amounts of fake currency entered circulation during this period (Luther, 2015) and by some accounts counterfeit notes account for 95 percent of the Somali Shillings in circulation (IMF, 2015). Interestingly, even in this adverse context the Somali Shilling retained a key role as a form of payment in the country. This has made the Somali Schilling a popular case study for those interested on the implications of fiat versus other types of currency (Luther, 2015; Mubarak, 2002).

Currently the Somali Shilling is still used for transactions involving small payments, but the US dollar is the currency typically used for larger payments. In that sense, there is a degree of complementarity between the two currencies. Mobile money transactions are currently denominated in USD. This fact can lead to further substitution of the Somali Shilling for the US dollar, given that mobile money transactions allow for small payments in USD (that is, no need for coins). Some stakeholders also have linked mobile money with worries about currency swings (sudden appreciations/depreciations of the Shilling) and inflation in the country.

At the moment the CBS, with the backing of international organizations such as the International Monetary Fund, is looking at possible ways to encourage the use of the Somali Shilling including the printing of new currency in the near future. Some stakeholders suggested that the printing of the new currency could occur as early as 2017. This is part of a strategy to increase the control of the CBS over the country’s monetary system.

Finally, it is important to note that the Bank of Somaliland has issued its own currency, the Somaliland Shilling. ZAAD allows customers in Somaliland to have accounts in USD as well as local currency. The possibility of a dual currency wallet was introduced in May 2015 as a response to government concern that mobile money was displacing the local currency (Iazzolino, 2015).

Recommendations

(a) The potential role of the Somali Shilling and the relationship with the US dollar should be more central to the regulation. The "currency of Somalia" is only mentioned in the context of definitions. The rest of the discussion in the draft regulation is either about USD (for fees and capital requirements) or "money" in general.

(b) Given the different potential meanings of "currency" in Somalia the regulation should provide a clear definition of such currency and explicitly state the currencies in which individuals can hold money in their mobile accounts.

(c) The section about cashing mobile money at par value can benefit from making explicit the currency of redemption.

(d) Furthermore, preparing for additional printing of currency, it would be advisable to clarify what happens if there are transactions between currencies (i.e. possibility of conversion across currencies). Key questions include: At what rate can the money be converted from one currency to the other? Should the official CBS rate at the moment of the transaction be used?

(e) It is also important to clarify the exchange rate which will be used to determine the value limit on transactions if there are any transactions in a currency other than the US dollar. At the moment those limits are defined in USD.

(f) **Post-regulation:** this is an aspect of the regulation that should be adjusted regularly in order to account for the changing role of the Somali Shilling and the printing of new currency in Somalia. An annual revision by the CBS would be useful to check the need to update the regulation.

CUSTOMER IDENTIFICATION

There is great interest in the adequate identification of mobile money account holders. Stakeholders consistently mentioned this topic as both, a priority and a challenge. It is a priority given the international standards of anti-money laundering and counter financing of terrorism (AML/CFT) which require customer identification (KYC). It is a challenge given that a large share of the population of Somalia lacks proof of identification in the form of an identity document. There are initiatives in place to increase the share of people in Somalia that has a formal identity document. These initiatives include the possibility of a biometric identification and using ID cards of returning refugees.

In other contexts, different transaction amount brackets for remittances have different customer identification and security requirements. For instance, under the European Union Payments Regulation there is no need to verify the payer's information for transactions of less than €1,000. For amounts higher than that the information has to be verified with a reliable and independent source such as a passport, photocard driving license or documents issued by a government department.

Recommendations

(a) The regulation mentions the need for accurate records on the identity of mobile money holders, but it remains unclear about what the "records" means in this context. This explanation should be expanded to address the problem with the lack of identity documents in Somalia. A possibility is to set out different transaction limits for accounts in which identity is clear (for example, Government ID) and other accounts in which identity is less clear. Over the long-term it would be important to evaluate if this identification requirement is affecting some groups disproportionately (for example, females, rural or poorer households) and take measures to provide those groups with an identity document.

(b) There is a need for clarification on the difference in identification requirements between current customers and new customers (after regulation is in place). For instance, would existing customers have to comply retroactively with the identification requirements? In order to integrate the international remittances and mobile money markets, it would be necessary to identify all mobile money customers.

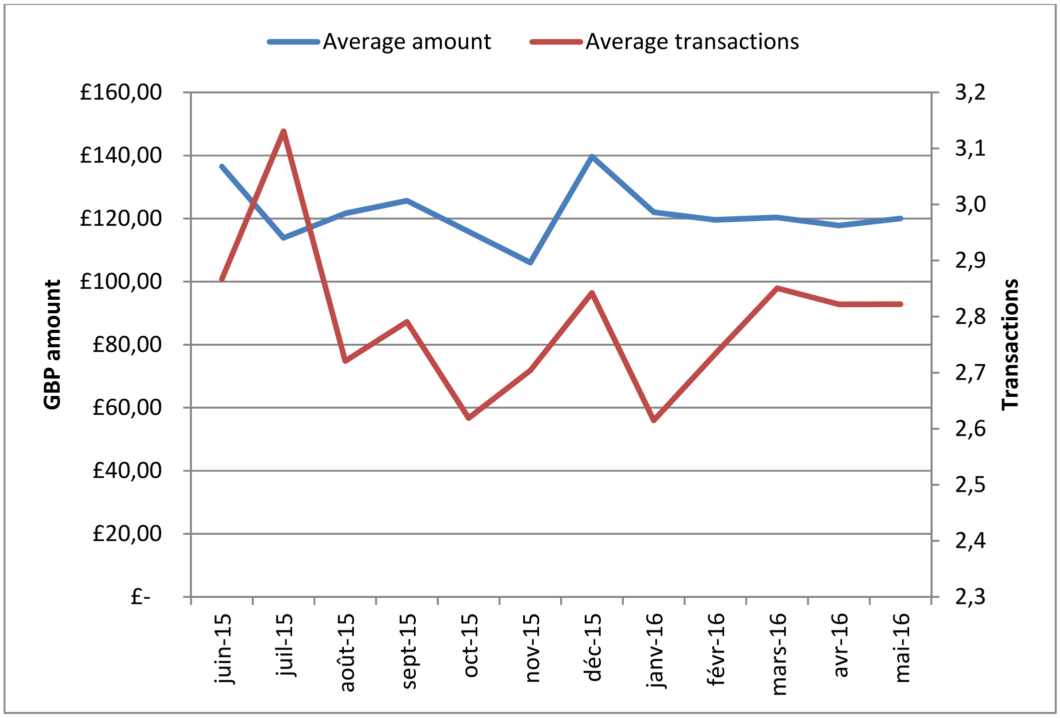
(c) **Post-regulation:** It is important to adjust these requirements over time to the availability of identity documents in Somalia. An annual revision by the CBS would be useful to check the need to update the regulation.

TRANSACTION LIMITS

It is common for financial transactions to have a maximum transfer amount due to security reasons, even in cases in which both sides of the transaction can be identified. This limit can be imposed in different ways, such as, daily aggregate, monthly and/or by transaction. Mobile money companies in Somalia typically impose a USD limit per day. In the current draft regulation there are limits proposed by transaction and monthly total, but amounts are not defined yet. It is also possible for the same customer to have multiple accounts with the company which complicates the imposition of this limit.

As explained above, there are limitations on making international mobile money transfers to South and Central Somalia. Looking at the average amounts of remittances to Somaliland can provide some information about the implications for remittances of a potential limit on transactions. As shown in Figure 6, on average WorldRemit customers transferring money from the United Kingdom to Somaliland (main corridor) send about GBP 120 (approximately USD 192) per transaction and make three transactions per month for a monthly total GBP 360 (approximately USD 576). Academics have suggested that typical monthly remittances to Somalia are in the range of USD 200 to USD 300 (Carling et al., 2011; Hammond et al., 2011: Lindley et al., 2009), but the estimates are several years old.

Figure 6 – Average amount and number of transactions WorldRemit-ZAAD (Somaliland).



Source: Data provided by WorldRemit to the author.

Recommendations

(a) Given that there is no obvious number for the transaction limit, it should at least allow for a monthly total of USD 600 and transactions of USD 200. Note that this minimum amount would only cover the international remittances aspect and does not take into consideration the need for domestic transactions.

(b) If by any reasons a lower limit is preferable for the domestic transactions, the regulation could include higher transaction limits for international transfers in order to protect the remittances market. The draft regulation already includes a section which explains that the CBS could allow for different limits for particular transactions and accounts. Given that the regulation also requires the identification of the sender and receiver of the money, it should be possible to differentiate between domestic and international transactions.

(c) **Post-regulation:** It is important to adjust these limits over time. As mobile money operators in Somalia establish formal partnerships with remittances companies abroad, consumer demand for higher transaction amounts of remittances is likely to grow. An annual revision by the CBS would be useful to check the need to update the regulation.

REGULATION OF REMITTANCES

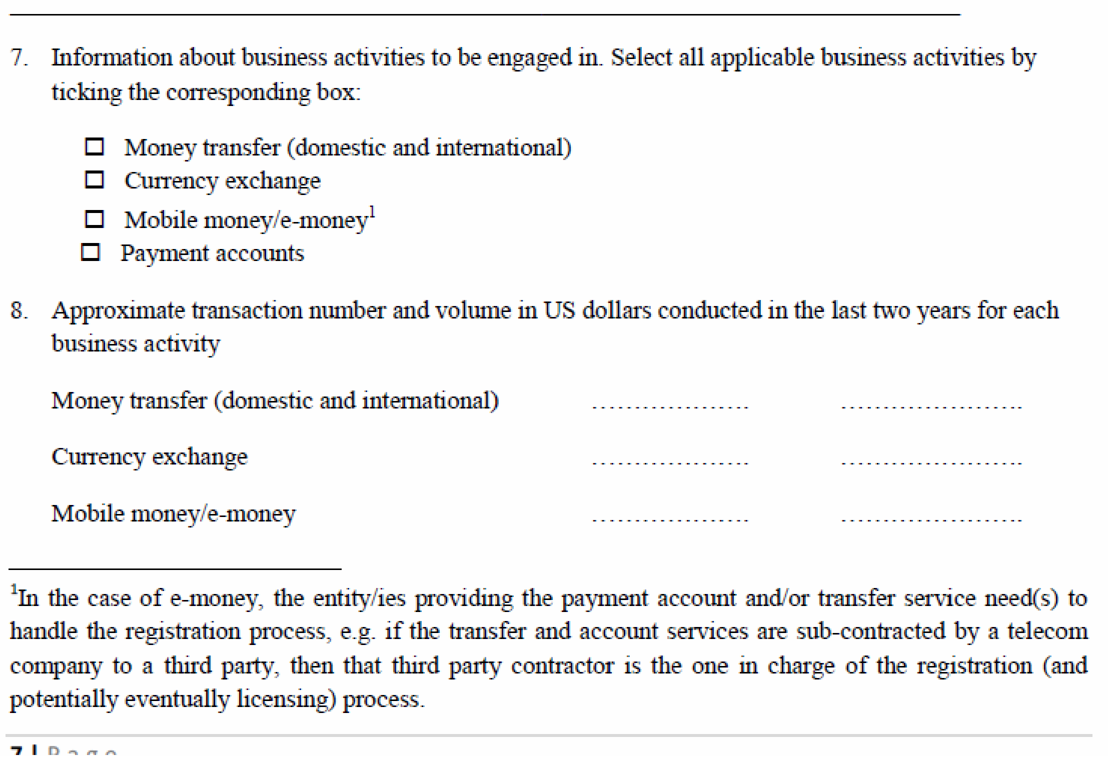
Several banks in the United States, Australia, Canada and Europe (for example, Barclays) have decided to close the bank accounts of Somali money transfer businesses (MTBs) (Orozco and Yansura, 2013). This is a phenomenon known as "de-risking" and has seriously affected the operation of many MTBs, as a bank account is a key requirement for operation. A World Bank report based on a survey of key stakeholders in the remittances market (governments, banks, and MTBs) suggests that the main factors behind de-risking include increasing fear of regulatory scrutiny, reputational risk, low revenue-generating potential, and fear of losing access to correspondent banking relationships (World Bank, 2015c). There is a perception that for banks the risk of continuing to provide services to Somali MTBs outweighs the benefits.

It is still not clear at what point the closure of formal remittances channels pushes remitters toward the informal sector, decreases flows, or increases the cost of remitting. A report by the FAO's Food Security and Nutrition Analysis Unit–Somalia (FSNAU) provides some evidence of a decrease in remittances as a result of the closure of remittances channels (FSNAU, 2015). The report finds that in most regions in which their survey was conducted, a substantial share of the households (23 to 49 percent) indicated that remittances declined during the period in which remittance channels to Somalia were affected.

There are several government-led initiatives related to de-risking. One example is the "UK-Somalia Safer Corridor Initiative," which focuses on this specific corridor to strengthen existing remittances channels and to address the bank concerns that have led to the closure of accounts of remittances companies (U.K. Government, 2015). In this context, the World Bank has appointed a private company to act as a "trusted agent" and assist the CBS in regulating and supervising MTBs (World Bank, 2016b). This "trusted agent" will also build capacity in the CBS's Licensing and Supervision Department. The World Bank has also assisted the CBS in drafting and implementing new regulations and guidelines for the remittances sector within the regime established under the new AML/CTF regulation.

International remittances are not mentioned in the current draft regulation of mobile money. However, the Money Transfer Business Registration Regulations of 2014 (Central Bank of Somalia, 2014) already allow companies to register as businesses offering mobile money and remittances transfers (see Figure 7).

Figure 7 – Section of the Money Transfer Business Registration Form



7. Information about business activities to be engaged in. Select all applicable business activities by ticking the corresponding box:

   - ☐ Money transfer (domestic and international)
   - ☐ Currency exchange
   - ☐ Mobile money/e-money[1]
   - ☐ Payment accounts

8. Approximate transaction number and volume in US dollars conducted in the last two years for each business activity

Money transfer (domestic and international)	....	....
Currency exchange	....	....
Mobile money/e-money	....	....

[1]In the case of e-money, the entity/ies providing the payment account and/or transfer service need(s) to handle the registration process, e.g. if the transfer and account services are sub-contracted by a telecom company to a third party, then that third party contractor is the one in charge of the registration (and potentially eventually licensing) process.

Recommendations

(a) The regulation of mobile money should be strongly linked to the regulation of remittances businesses and the remittances market in Somalia. This will ensure that mobile money providers can enter the remittances market shortly after receiving formal authorisation to operate.

(b) There is a need for clear guidelines on the need (or lack of need) to register separately as a remittances provider and a mobile money provider if the mobile money provider wants to offer the possibility of international remittances transactions. It is also important to clarify if those companies already registered as remittances operators offering mobile money services have to register again under the mobile money regulation.

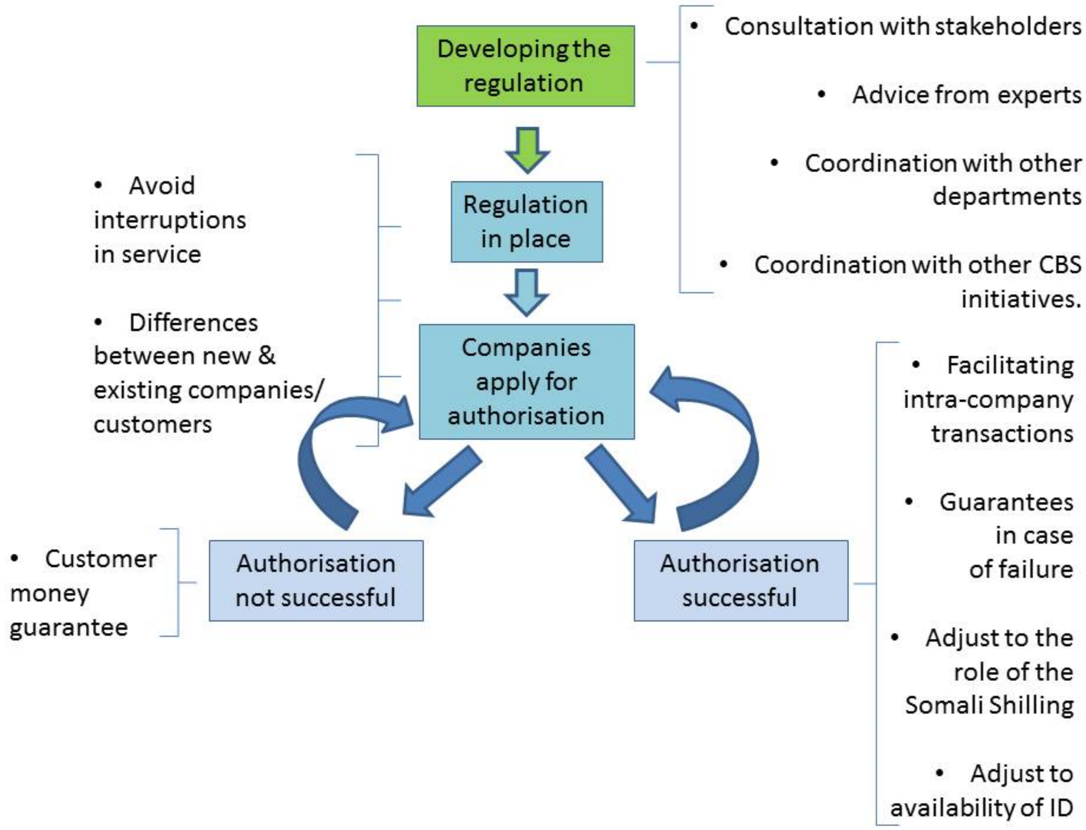
V. ROADMAP

This report is about those aspects of the regulation which directly relate to remittances. In that context, this section provides guidance of different steps related to developing and implementing the regulation (se Figure 8).

The first step is the consultation with key stakeholders. The key stakeholders include, among others, mobile money providers, mobile money users and hawalas. Above all, it is important for mobile money providers to be on board for the establishment of the regulation. The providers interviewed for this report stated their willingness to support the process, but this support was conditional on several key aspects which included: transparency of the process, recognition and credit of their role in providing key infrastructure without Government support and provision of services on the part of the Government (for example, security and infrastructure). Two sensitive issues with mobile money providers are currency and taxation. Providers suggest that using the Somali Shilling for transactions can be problematic as the credibility of the currency has been affected by decades without a strong national government. The prevalence of fake currency was provided as an example of a problem related to using the Somali Shilling for transactions. Providers also stated some reluctance to pay more taxes to a government which is not providing the necessary security and infrastructure.

It is also important in this first step to have close coordination with other government departments, particularly the MPT. Any regulation of the mobile money market needs to take close consideration of other relevant regulation for the mobile industry. The officers from the MPT interviewed for this project were very open to cooperation with the CBS. But perhaps more importantly there has to be close collaboration with other efforts within the CBS, such as the regulation of the remittances market and establishment of regulation regarding AML/CFT.

Figure 8 – Key factors to consider during the establishment of the regulation and in the post-regulation period.



It is important to consult with several experts on different aspects of the topic. This report is part of this effort. However, this report is focused on those aspects that can directly affect remittances. Additional aspects of the regulation require further consultation with other experts. There are several organizations that are providing assistance to the FGS regarding aspects related to mobile money. Table 3 provides information on some of these projects.

Table 3 – Other organizations/departments working on issues related to mobile money

Organization	Area	Details
World Bank	ICT Sector Support	http://blogs.worldbank.org/ic4d/supporting-ict-sector-somalia
World Bank	Supporting remittances	http://www.worldbank.org/en/news/press-release/2016/06/10/world-bank-makes-progress-to-support-remittance-flows-to-somalia
International Monetary Fund	Support currency and economic stability	http://www.imf.org/external/pubs/ft/scr/2016/cr16136.pdf

While the regulation is implemented, the priority is for the mobile money market to continue operations. This is an important point given that numerous individuals and businesses in Somalia depend on the mobile money market. It is undesirable to have a post-regulation scenario in which current mobile money providers cease operations until receiving a final authorisation. The cooperation of mobile money providers is also essential for success at this stage. Our discussions with stakeholders made it clear that enforcement of the regulation can be problematic without cooperation of current mobile money providers.

Once the initial process of authorisation is finished some companies might be unsuccessful in obtaining authorisation. It is important to find ways to protect the funds of the customers of those companies. This is a continuous process, as in the current draft companies are required to apply for authorisation every year. This means that the requirements regarding authorisation can be adjusted frequently in order to account for changes in the legal and economic environment of Somalia. As explained above, three key areas which should be taking under consideration overt time are the availability of identity documents, the growing demand for larger remittances transactions and the role of the Somali Shilling.

Finally, the CBS regulation regarding mobile money and remittances needs to be adjusted to changes in the Somali National Development Plan currently being developed. Several components of this plan relate to a strategy for diaspora engagement including an emphasis on increasing financial literacy to maximize the impact of money remitted to Somalia.

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APPENDIX 1 – DRAFT REGULATION

CENTRAL BANK OF SOMALIA

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REGULATIONS NO 1OF 2015

The Financial Institutions Law

(Law No, 130 of 22 April 2012)

MOBILE MONEY SERVICES PROVIDER LICENSING REGULATION, 2015

IN EXERCISE of the powers contained in Sections 50 and 120 of the Financial Institutions Law, the following Regulations are hereby made:

PART I

PRELIMINARY

1) This Regulation may be cited as the financial institutions (Mobile Money Provider) Regulation, 2015.

2) This Regulation applies to:

(a) All mobile money service providers;

(b)All Bank of Somalia licensed institutions partnering with mobile money providers;

(c) All mobile money agents; and

(d) Mobile money customers.

PART II

AUTHORITY OF THE CENTRAL BANK OF SOMALIA

3) The central bank shall be the regulatory authority for the purposes of giving legal effect to these Regulations

4) Section 50 (5)(a) and 50(5)(b) of the Financial Institutions Law gives responsibility to the central bank to prescribe, by regulation, the form and information to be submitted with a license application to engage in mobile money transfer business

5) Section 120 of the Financial Institutions Law gives responsibility to the central bank to make such Regulations as maybe required from time to time for giving effect to the provisions of the Financial Institutions Law

6) The central bank shall make available to the public part of, or all of such information contained in the Register so that the public may check which money transfer business is properly licensed before using the service

PART III

PURPOSE

The purpose of this Regulation is to provide for:

7) The authorization of mobile money service providers and the conduct of the business of mobile money issuing;

8) The appointment of agents by mobile money service providers and the registration of such agents; and

9) Appropriate measures to protect the interests of the clients of mobile money providers.

PART V

DEFINITIONS

10) In this Regulation, unless the context otherwise requires, the words and expressions used herein shall have the same meanings assigned to them in the Mobile Money Regulations 2015, Financial Institutions Act, and,

“Agent” means a person appointed by an mobile money provider to perform agency services on its behalf,

“Agency services” means the registration of new mobile money account holders on behalf of an mobile money provider and shall include services incidental to the performance of these services;

“aggregate monthly load limit” means the total amount of mobile money transferred into an mobile money account held by an mobile money holder over the period of a calendar month;

“business of an mobile money provider“ means the business of issuing mobile money and includes the issuance of mobile money against currency of Somalia received as well as the redemption of mobile money for currency of Somalia and includes the provision of closely related ancillary services in respect of the issuing of e- money as well as the operational services of the mobile money provider;

“core capital” means shareholders equity in the form of issued and fully paid-up shares of common stock, plus all disclosed reserves, less goodwill or any other intangible assets;

customer” means a person who uses or has used mobile money services;

“Payment account” means payment account as defined in Regulation for the provision of Electronic Retail Transfers.;

“client” means payment account as defined in Regulation for the provision of Electronic Retail Transfers.

“Mobile money service provider “means a person authorized to issue mobile money under this Regulation and, for the purposes of clauses 4, 7, 9, 10, 11, 12, 13 and 14, includes a bank and a financial institution;

“mobile money” means monetary value as represented by a claim on its issuer, that is

(a) Electronically, including magnetically, stored;

(b) Issued against receipt of currency of Somalia or such kind in; and

(c) Accepted as a means of payment by persons other than the issuer

“Mobile money holder” means a person who has a claim on a mobile money provider for mobile money issued by the mobile money provider;

“material shareholder” means a person, other than the government or a public entity who holds directly or indirectly 15% (TBD with the Governor) or more of the share capital of a Payment Service Provider and “material shareholding” shall be construed accordingly;

mobile banking” means the use of a mobile phone as a channel to access and conduct financial transactions on one’s account held in a licensed institution.

mobile money” is mobile money available to a user to conduct transactions through a mobile phone.

“mayment instrument” means any instrument that enables a person to make payment electronically, and for the purposes of this definition currency (which is defined in the Central Bank of Somalia Act as the means to make payment) shall include e-money;

PART VI

AUTHORIZATION OF MOBILE MONEY PROVIDERS

11) No person shall conduct the business of mobile money unless that person is authorized to do so under this Regulation.

12) Persons who intend to conduct business as mobile money as well as persons directed to do so by the Bank, shall make an application to the Bank for authorization in the prescribed form set out in the First Schedule??. The Bank shall not authorize a person as mobile money providers unless the person complies with the following requirements:

(a) The person is established and incorporated as a limited liability company or partnership under the Financial Institutions Act in Somalia;

(b) The material owners and ownership structure are suitable;

(c) The board of directors adequately reflects the balance of interests represented by the mobile money provider, in particular that the company will hold funds in trust on behalf of mobile money holders;

(d) The person has minimum unencumbered core capital of 1 million (TBD with the Governor)USD or such other amount as may be required by the Bank;

(e) The person engages only in the business of a mobile money provider. A person engaged in activities not related to mobile money but wishing to be authorized as a mobile money provider, must do so through a separate entity duly incorporated exclusively for this purpose;

(f) The person is financially sound;

(g) The persons proposed to manage or control the mobile money providers are fit and proper and have the necessary experience and technical qualifications to perform their functions;

(h) The following minimum systems and controls are in place:

(i) Sound and prudent management, administrative and accounting procedures and adequate internal control systems;

(j) Appropriate and tested technology systems;

(k) Appropriate security policies and measures intended to safeguard the integrity, authenticity and confidentiality of data and operating processes;

(l) An adequate business continuity and disaster recovery plan; and

(m) An effective audit functions to provide periodic review of the security control environment and critical systems;

(n) The person has been issued with such licenses and authorizations as may be required under Financial Institutions Law in Somalia;

(k) Every license application shall be accompanied by an application fee of US$ __(TBD) with Gov.)

13) An application under this part shall set out the nature and functionality of the proposed mobile money payment instrument that will be made available to mobile money holders and shall contain sufficient information to enable the Bank to evaluate the requirements set out above.

14) Authorization under this regulation may be made subject to specific conditions imposed by the Bank. Where authorization has been granted under this clause, the Bank may add, vary, or substitute conditions attached thereto.

15) An authorization issued under this regulation shall, unless earlier revoked, be valid up to the 31st December of the year in which it is issued.

16) An authorization made under this regulation may on expiry be renewed for a further period of twelve months, provided that where an application for renewal is made the authorization shall be deemed to continue in force until the application for renewal is determined. An application for renewal shall be made at least 2 months prior to the expiry of the authorization, or such shorter period as it may be valid in the year that it is first granted, and shall be considered in accordance with the provisions of this regulation

17) The Bank may by notice in writing to an authorized mobile money provider, revoke or suspend an authorization for such period as it may specify, if the authorized mobile money provider–

(a) Ceases to carry on business in Somalia or goes into liquidation or is wound up, or is otherwise dissolved; or

(b) Fails to comply with the provisions of this Regulation or any condition attached to an authorization.

18) Before revoking or suspending an authorization under this clause, the Bank shall give an authorized mobile money provider not less than fourteen days' notice in writing and shall consider any representations made to it in writing by the authorized mobile money provider within that period.

PART VII

COMPLIANCE REQUIREMENTS APPLICABLE

TO MOBILE MONEY PROVIDERS

Mobile money provider shall comply with the following requirements:

19) Every mobile money account issued shall be subject to an individual transaction limit that shall not exceed xxxxxxxx USD and an aggregate monthly load limit of $xxxxxxUSD (To be discussed with the Governor), provided that the Bank may approve higher limits for specific categories of mobile money accounts. Should an mobile money provider more than one mobile money account to an mobile money holder, the total amount loaded into all the mobile money account accounts of that mobile money holder shall not exceed the aggregate monthly load limit.

20) Mobile money provider shall put in place systems to maintain accurate and complete records of mobile money accounts opened, the identity of mobile money holders, transactions undertaken by mobile money holders and the individual and aggregate balances held by mobile money holders.

21) Mobile money provider shall ensure that they and their agents comply with the applicable provisions of the Proceeds of Crime and Anti-Money Laundering Act and the regulations issued in terms of the said Act.

22) Mobile money provider shall enter into a written agreement with every mobile money account holder for whom they open a mobile money account. The agreement shall, amongst others, clearly identify the mobile money provider who is responsible to the mobile money account holder and if the payment system utilizing the mobile money account is operated by a person other than the mobile money provider, the name of the payment service provider.

23) Mobile money shall be redeemed at par value. Mobile money shall not earn interest or any other financial return to the Mobile Money holder.

24) Mobile money provider, other than banks and financial institutions, shall not engage in any lending or investment activity other than that required under this regulation.

25) Mobile money provider may not borrow money from third parties, including persons who have a shareholding in the mobile money provider, or otherwise incur obligations other than those related to the business of a mobile money provider.

26) Any substantial change or enhancement in the mobile money payment instrument which a mobile money provider intends to introduce shall be subject to the approval of the Bank and the mobile money provider shall notify the Bank in writing 30 days prior to the proposed implementation of the change or enhancement. A substantial change or enhancement is one that will expand the scope or change the nature of the mobile money payment instrument and may include, amongst others, the following:

(a) Additional functionality of the mobile money payment instrument such as accessing new electronic channels;

(b) Changing the payment service providers and other major partners in the business.

PART VIII

LIQUID ASSETS REQUIREMENT

27) Mobile money provider shall maintain liquid assets equal to the amount of outstanding mobile money issued. The liquid assets shall remain unencumbered and may take the form of

(a) balances held at banks, approved by the Bank, after deducting there from any balance owed to those banks, provided that such balances shall be held separately from balances relating to any other operations of the mobile money provider; or

(b) Any other liquid asset prescribed by the Bank.

28) Mobile money service providers shall on a daily basis, by no later than 16.00 p.m. East Africa time each day, reconcile the liquid assets held by them for the redemption of mobile money with the amount of mobile money outstanding. Any deficiencies in the amount of liquid assets held shall be rectified by 12.00 p.m. the next day. A report shall be made to the Bank by 16.00 pm East Africa time on the day following the discovery of any deficiency, outlining the amount of the deficiency and describing how the deficiency arose and how it has been rectified.

29) The Bank may, in the interest of protecting mobile money holders, require an mobile money provider to keep its liquid assets in more than one bank.

30) Records pertaining to the above liquid assets as well as reconciliations shall be made available to the Bank for inspection at any time and the confidentiality of bank deposits shall be waived.

PART IX

AGENCY

31) A mobile money provider may utilize agents to perform agency services on its behalf.

32) Mobile money provider that intend to appoint agents shall, at least 60 days prior to commencing the conducting of the business of an mobile money provider through agents, advise the Bank in writing of their intention and provide the following information to the Bank:

a) The procedure for recruiting agents;

b) The proposed geographic location of agents;

c) A copy of the proposed standard agency agreement or agreements;

d) The policies and procedures approved by the mobile money provider for the provision of services through agents, including anti-money laundering controls to be implemented by agents in terms of the Anti-Money Laundering and Combating Terrorisms Financing Act AML/CFT;

e) A description of the technology to be used for delivering agency services;

f) A risk assessment report of the provision of services through agents including the control measures that will be applied to mitigate the risks;

g) The security measures to be adopted for agent premises; and

h) The agent manual and any materials used for training agents.

i) The Bank may require the mobile money provider to submit additional information.

1) The Bank may, by notice in writing to an mobile money service provider intending to appoint agents, instruct the mobile money provider to desist from proceeding with the provision of services through agents if the information provided to the Bank under 9 is incorrect or if the information indicates that the mobile money provider will not comply with the provisions of this Regulation or any other legal provision if it proceeds with the utilization of agents to perform agency services. The Bank shall provide reasons for its decision and shall afford the mobile money provider an opportunity to amend its documents

33) Mobile money provider may appoint, through written agency agreement, a person as agent if that person:

a) Possesses such registrations, business licenses, or permits as may be required for the performance of its commercial activities;
b) Can lawfully provide the proposed agency services;
c) Is financially sound and has provided the mobile money provider with adequate financial records to prove its financial soundness;

d) Has provided evidence to the mobile money provider indicating that its management has the necessary experience and competence to perform the agency services.

34) A mobile money provider utilizing an agent(s) to perform agency services shall communicate the following information to the Bank in the prescribed form set out in the First Schedule and update the information on a monthly basis:

(a) The name, material owners, physical address, postal address and telephone numbers of the agent as well as the physical address and telephone numbers of each of the outlets of the agent at which it will provide services as agent for the mobile money provider;

(b) The identity of the persons responsible for the management of the agent; and the Bank shall insert this information in a public electronic register of agents.

35) An agent appointed under this Regulation may also conduct business as an agent under the Agent Banking Regulation and as cash merchant under the Retail Transfer Regulation, subject to such authorization provisions as apply under those Regulations.

36) A mobile money provider utilizing agents to perform agency services shall:

(a) Maintain systems, policies and procedures, including risk management policies, to exercise effective internal control over the provision of services by its agents;

(b) Provide adequate training and support to its agents, including an agent manual containing the policies, rules and operational guidelines needed to ensure the safe and efficient provision of services to clients; and

(c) Maintain effective oversight over the activities of its agents.

37) Agents contracted to mobile money provider shall comply with the Anti-Money Laundering and Combating the Financing of Terrorism controls applicable to mobile money provider.

38) Mobile money providers are liable to their mobile money account holders for the conduct of their agents, performed within the scope of the agency agreement. The agency agreement cannot exclude such liability.

PART X

RECORD-KEEPING

39) Mobile money provider shall utilize systems able to provide an accurate and fully accessible audit trail of all mobile money transactions.

40) A mobile money provider shall keep records of every mobile money transaction processed by them for a period of seven years.

PART XI

OUTSOURCING

41) Where a mobile money provider intends to outsource operational functions, it shall inform the Bank at least 30 days before such outsourcing agreement is implemented.

42) Outsourcing of material operational functions may not be undertaken in such a way as to impair the quality of the mobile money provider's internal control and the ability of the Bank to monitor the mobile money provider's compliance with this Regulation.

43) For the purpose of an operational function shall be regarded as material if a defect or failure in its performance would materially impair the continuing compliance of the mobile money provider with the requirements of its authorization under this Regulation, or its financial performance, or the soundness or the continuity of its undertaking the business of an mobile money provider. When a mobile money provider outsources a material operational function, it shall comply with the following conditions:

PART XII

CONSUMER PROTECTION

44) In addition to the information specified in this regulation, a mobile money provider shall disclose the following information in writing to new mobile money account holders upon opening their mobile money accounts:

(a) That mobile money may be redeemed at any time at par value;

(b) The fees, if any, and other conditions applicable to the redemption of mobile money;

(c) The fees, if any, applicable to balance enquiries;

(d) That mobile money cannot earn interest or other monetary incentives or rewards and that it is not a savings account or other investment instrument;

(f) Available customer care procedures for complaints together with the address, customer care contact number and other contact details for the mobile money provider.

45) Mobile money providers shall upon request from a mobile money holder provide the mobile money holder in writing with the balance remaining in its mobile money account as well as a statement of transactions for the previous 30 days.

46) Mobile money provider shall, within six months after commencing business as a mobile money provider, establish a customer care system to address the complaints of mobile money account holders. Mobile money providers shall, prior to the establishment of a customer care system in terms of this regulation provide adequate means for mobile money account holders to file complaints and shall address such complaints within a period of 60 days from receipt of the complaint.

47) Mobile money providers shall provide easily understood information about the customer care system, including the customer care contact number, at its head office, branches as well as the premises of agents.

48) Complaints may be lodged orally or in writing, but in each case must be lodged within a period of 30 days from the date of occurrence.

49) Mobile money providers shall acknowledge all complaints filed with them.

50) At the time of making a complaint the complainant shall be advised of the expected actions and timing for investigating and resolving the complaint, provided that all complaints shall be resolved within sixty days of being lodged.

51) Mobile money providers shall put in place processes to provide complainants with sufficient information and the means to inquire on the progress of complaints and such processes may include complaint reference numbers or other identifiers in order to facilitate timely and accurate responses to subsequent inquiries by complainants.

52) Complainants shall be advised of the outcome of the investigation of their complaint, and any resulting decision by the mobile money providers.

53) Where a complainant is not satisfied with a decision reached pursuant to a complaint, the mobile money provider shall give the complainant the option of pursuing an identified escalation process by which the decision may be examined by a suitably qualified person in the mobile money provider’s organization.

54) Complaint handling processes shall be provided free of charge but a mobile money provider may impose a reasonable charge for complaint handling processes where investigation of the complaint requires the retrieval of records more than three months old, and where the retrieval results in an incremental expense or significant inconvenience to the mobile money provider. Any such charges shall be identified and agreed to by the complainant.

55) Mobile money providers shall make adequate provision to ensure that people with disabilities are able to access their complaint handling processes, including ensuring that such complainants can be easily represented by their authorized representatives in order to make a complaint. In cases where such complainants specifically request assistance in lodging complaints, mobile money provider shall be obliged to provide reasonable assistance.

PART XIII

OVERSIGHT AND REPORTING

56) The Bank shall in respect of mobile money providers and their agents exercise the oversight and supervisory powers and functions conferred on it by the Act.

57) Every mobile money provider shall, within 10 working days of the end of every calendar month, submit to the Bank in the form set out in the First Schedule, information regarding:

(a) The number of mobile money accounts issued by it;

(b) The volumes and values of its mobile money transactions;

(c) The total of outstanding mobile money balances held by it;

(d) Its liquid assets;

(e) Incidents of fraud, theft or robbery, including at its agents;

(f) Number of complaints received analyzed by category;

(g) Material service interruptions and major security breaches;

(h) And any other information as may be required by the Bank from time to time.

58) Every mobile money provider shall, within 10 working days of the end of every calendar month, submit to the Bank in the form set out in the Second Schedule, information regarding:

(a) Number of registered customers

(b) Number of active customers*

(c) Number of agents

(d) Agents ‘balances (USD)

(e) Customers’ balances (USD)

(f) Number of Transactions

(g) Value of transactions (USD)

(h) Outstanding remittances (USD) (specify nature)**

(i) Transaction Limits (Specify)

(j) Frequency

(k) Values (USD)

(l) Suspicious transactions

(m) Frequency

(n) Values (USD)

(o) Number and nature of complaint

(p) Complaints resolved

(q) Number, nature and Value of Frauds

(r) Applicable fees

59) Every mobile money provider shall, within three months of the end of its financial year, submit to the Bank an audited balanced sheet, showing its assets and liabilities in Somalia, and an audited profit and loss account covering its activities in Somalia together with a copy of the auditor's report.

EFFECTIVE DATE

The effective date of the Regulation shall be ---

SCHEDULE 1

OVERSIGHT DATA REQUIREMENT

PURSUANT of section xxxxx and section xxxxx of the Financial Institutions Act, 2012, kindly provide the following information to facilitate oversight of your payment service.

PART A: MOBILE MONEY PROVIDER DETAILS

1. Name of the Mobile Money Provider ………………………………………….

2. Description of the payment service provided (please provide more details on a separate documentation)

……………………………………………………………………………………

……………………………………………………………………………………

3. Please provide the following information about your Payment instrument.

a) Physical address ……………………………………………………………

b) Postal address …………………………………………………………….

c) Telephone ……………………………………………………………….

d) Registered head office: ……………………………………………….

PART B: OPERATIONAL DETAILS

1. How many outlets / Agents operate under your establishment ……………… (Provide detailed geographic distribution in the attached sheet)

2. What is the volume and value of your operations during last month?

Aggregate Value …………………………..

Aggregate Volume …………………………

3. Have you experienced incidents of fraud, theft or robbery?

a) No

b) Yes (Provide geographical distribution details in the sheet provided)?

4. Have you experienced material service interruptions and major security breaches?

a) No

b) Yes (Provide geographical distribution details in the sheet provided)

5. What security measures have you put in place to prevent service interruptions?

……

……

6. Have you received complaints and how have they been resolved?

a) No

b) Yes (Provide geographical distribution details in the sheet provided and resolving mechanisms can be provided in a separate sheet)

SCHEDULE II

MOBILE MONEY PROVIDER REPORT

Name of Mobile Money Service Provider: ……………………………………………........

For the month ending: ………………………………………………………………………

Number of registered customers	
Number of active customers*	
Number of agents	

Agents 'balances (USD)	
Customers' balances (USD)	
Number of Transactions	
Value of transactions (USD)	
Outstanding remittances (USD) (specify nature)**	
Transaction Limits (Specify) a) Frequency (b) Values (USD)	
Suspicious transactions a) Frequency (b) Values (USD)	
Number and nature of complaint	
Complaints resolved	
Number, nature and Value of Frauds	

Number	Nature	Value	
Applicable fees			

*Customers who have transacted in the last 90 days

** Transactions that have been originated but not completed and are in suspense e.g. remittance sent but not yet received by the recipient or bill paid but not yet credited to Bill Provider’s account.

Declaration

I/We declare that the information provided is true to the best of our knowledge.

Name…………………………..........................Name …………………………

Designation …………………… ....Designation ……………………..

Date ……………………………   Date ……………………………….

Discuss with Governors if these forms are to be included in the regulation

1) Fist Schedule: Mobile Money Provider License Application form
2) Second Schedule: Mobile Money Services Provider Oath and Declaration
3) Third Schedule: Fit and Proper Questionnaire

APPENDIX 2 – STAKEHOLDERS CONSULTED

- Academics
- African Institute for Remittances
- Central Bank of Somalia (CBS)
- EU Delegation to Somalia
- International Monetary Fund (IMF) – Somalia
- International Organization for Migration (IOM) – Somalia
- Ministry of Post and Telecommunications
- World Bank – ICT Sector Unit
- World Bank – KNOMAD
- World Bank – Payment systems
- Mobile money providers
- Mobile money users
- Mobile money experts
- Remittances companies
- Remittances experts
- UK Department for International Development (DFID)

APPENDIX 3 – GUIDE QUESTIONS FOR THE STAKEHOLDERS

ACP-EU Migration Action Somalia - Guide questions[1]

These questions are provided as an example of the types of questions that the IOM expert will be asking you (your organization). It is not meant to be a definite list. The main goal is to have an open and insightful conversation about these topics. Finally, keep in mind that some of the questions might be more related to your work (your organization) than others.

1. How does your work (or your organization) relate to mobile money and/or remittances?
2. What works well in the mobile money industry in Somalia?
3. What does not work well in the mobile money industry in Somalia?
4. What are the main potential ***advantages*** of new Government regulation of the mobile money industry?
5. What are the main potential ***disadvantages*** of new Government regulation of the mobile money industry?
6. Do you see any priority areas for regulation in the mobile money market?
7. What mobile money regulations can strengthen and safeguard remittances in/to Somalia?
8. Which aspects of mobile money regulation would be ***easier*** to implement?
9. Which aspects of mobile money regulation would be ***more difficult*** to implement?
10. Do you see any areas of potential for coordination between the Government and the private sector? If yes, which are those areas?

[1] For more information on the ACP-EU Migration Action, please visit http://acpeumigrationaction.iom.int/