Developing guidelines
for cash transfers in Somalia:

Enabling environment

This document *Recommendation 6 – Enabling Environment* belongs to a larger set of recommendations aimed at improving mobile money cash transfer processes in Somalia. Topics covered in the set of recommendations include: MPSP service offering, automation of the cash transfers, post distribution monitoring, common recipient registry, proof of ID, and enabling ecosystem. This document focuses on the enabling environment.

This sixth set of recommendations is slightly different from the others since it is cross-cutting and provides recommendations targeted at South Central, Puntland and Somaliland government entities to support the other five sets of recommendations.

Recommendation 6

GSMA Mobile for Humanitarian Innovation

The GSMA represents the interests of mobile operators worldwide, uniting more than 750 operators with almost 400 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors. The GSMA also produces the industry-leading MWC events held annually in **Barcelona**, **Los Angeles** and **Shanghai**, as well as the **Mobile 360 Series** of regional conferences.

For more information, please visit the GSMA corporate website at **www.gsma.com**

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The GSMA Mobile for Humanitarian Innovation programme works to accelerate the delivery and impact of digital humanitarian assistance. This will be achieved by building a learning and research agenda to inform the future of digital humanitarian response, catalysing partnerships and innovation for new digital humanitarian services, advocating for enabling policy environments, monitoring and evaluating performance, disseminating insights and profiling achievements. The programme is supported by the UK Foreign, Commonwealth & Development Office.

Learn more at **www.gsma.com/m4h** or contact us at **m4h@gsma.com**

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The Somalia Cash Working Group (CWG) leads the inter-sectoral cash coordination mechanism and aims to improve the coordination of cash assistance, quality of implementation of cash assistance monitoring, evaluation and learning. It is co-chaired by the World Food Programme and Concern Worldwide/Somali Cash Consortium. The Financial Service Provider (FSP) workstream's objective is improving the systems and processes of humanitarian mobile money cash transfers in Somalia, benefiting programme participants by working with implementing agencies, mobile network operators, private sector and learning partners. The GSMA M4H has supported the FSP's work since 2020.

Further information on the Somalia CWG can be found here: **www.humanitarianresponse.info/en/operations/somalia/cash-activities**

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Altai Consulting partnered with Tusmo in Somalia

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1 Current state

Mobile Payment Service Providers (MPSPs)

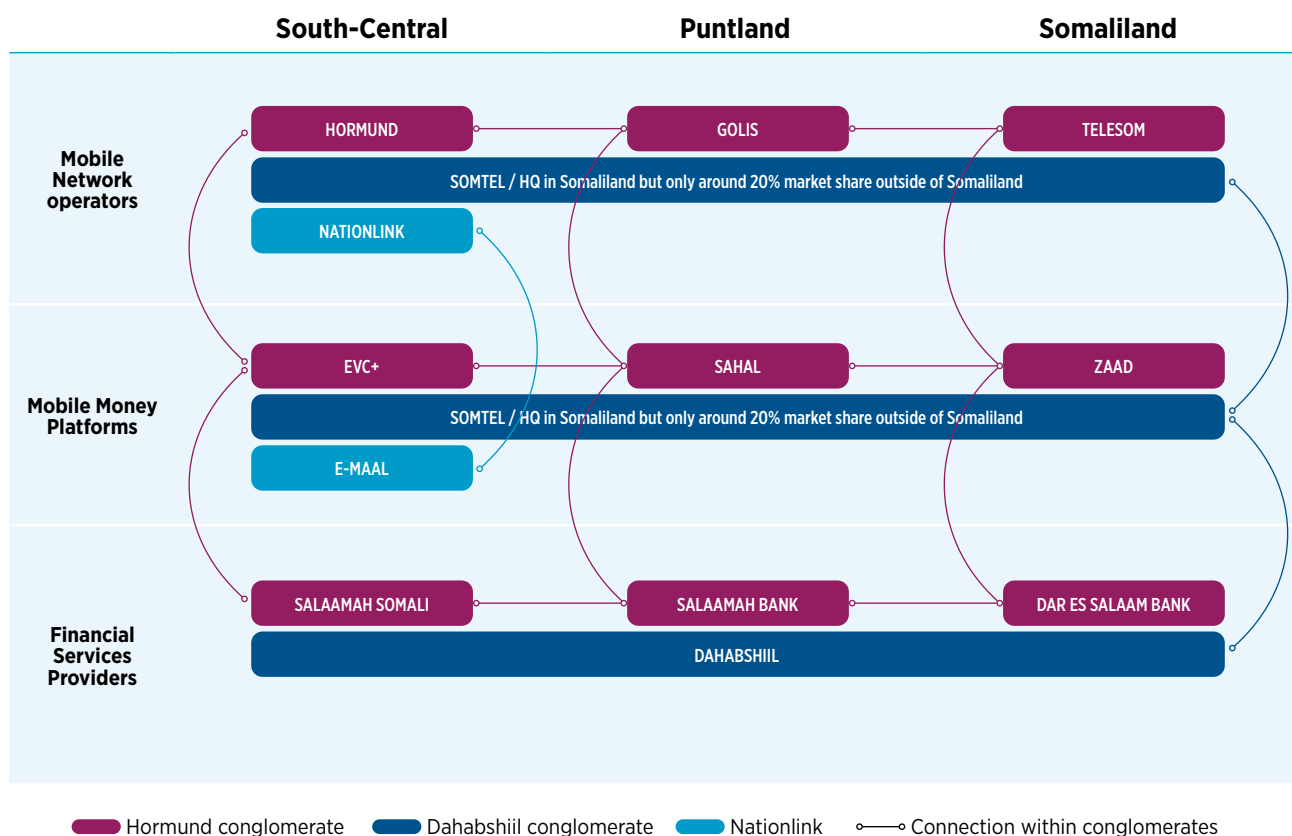The ICT mobile money landscape in Somalia is divided across several MPSPs:

It is dominated by the Hormuud conglomerate, which includes the MPSPs Hormuud in South-Central, Gollis in Puntland and Telesom in Somaliland. The three MPSPs have a partnership with the Salaam Bank, which allows the MPSPs to expand the range of mobile money services through platforms EVC Plus in South-Central, Sahal in Puntland and ZAAD in Somaliland.

The Dahabshiil conglomerate is Hormuud's biggest competitor. Dahabshiil bank partnered with Somtel, which provides mobile money services through its platform e-Dahab. Somtel operates across the three Somali regions.

NationLink was one of the pioneers but it is losing market share. It provides mobile money services through its platform E-Maal. It operates solely in South-Central Somalia.

Figure 1

MPSP Landscape

	South-Central	Puntland	Somaliland
Mobile Network operators	HORMUND	GOLIS	TELESOM
	SOMTEL / HQ in Somaliland but only around 20% market share outside of Somaliland		
	NATIONLINK		
Mobile Money Platforms	EVC+	SAHAL	ZAAD
	SOMTEL / HQ in Somaliland but only around 20% market share outside of Somaliland		
	E-MAAL		
Financial Services Providers	SALAAMAH SOMALI	SALAAMAH BANK	DAR ES SALAAM BANK
	DAHABSHIIL		

Hormund conglomerate   Dahabshiil conglomerate   Nationlink   ○───○ Connection within conglomerates

Most INGOs/agencies work with the Hormuud conglomerate because of their wide geographic reach and market share. They all offer similar services to both INGOs/agencies and individual customers.

Existing policies and regulations

Financial institutions and mobile money

As described in more detail in the annexed policy and regulatory analysis document, several regulations have been developed to support the mobile money ecosystem, including:

- National Communications Act (2017) in South-Central and the Somaliland Telecommunications Law (2011) in Somaliland, which aim to create an environment conducive to investment in the sector, infrastructural development and more efficient service delivery;

- Mobile Money Regulation (2019) in South-Central which acts as the main regulatory document for the mobile money sector. A similar regulation is being developed in Somaliland and aims to be passed by the Somaliland Cabinet before 2021. Currently, a set of mobile money guidelines have been developed in Somaliland;

- Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act, passed in 2016 in South-Central and in 2019 in Somaliland.

Puntland is in the process of developing its own regulations but is very much reliant on Mogadishu's regulations for the time being. While Somalia fares well in terms of existing regulations overall, the enforcement of these regulations is lagging. Poor implementation has led to 'self-regulation' by the MPSPs.

Identification

The three regions differ in terms of the status of their national ID system. Somaliland is the most advanced in that a national ID system exists with biometric identification through iris scanning. However, in practice, not all residents have an ID card, particularly those in remote areas, due to the associated cost, access to government institutions and requirement of providing a birth certificate at registration. Similarly, in Puntland, a state ID system exists, but is expensive and is only provided by municipalities in the major towns. Less people therefore own an ID card in Puntland than in Somaliland. South-Central is the least advanced region in terms of an ID system. No official ID system exists. The system is however under development with support from the World Bank through SCALED UP (Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project).

Registration criteria

Mobile money registration criteria depend on each MPSP:

- **EVC Plus (Hormuud):** registration criteria depend on the type of account. For a normal account, no ID is required, and a phone number is enough. For an upgraded account ($700 limit), an ID is required. These registration criteria are not compliant with international standards.[1]

- **ZAAD (Telesom) and Sahal (Gollis):** to open a normal mobile money account, the user must have a SIM card registered to their name. The name provided for the mobile money account must be similar to the one associated with the SIM card, the user must fill in an electronic registration form (including full four names, mother's name, date and place of birth and residence), and provide a photo and valid identity document (passport, driver's license or national/state ID). In case the person does not have a valid ID, they must be referred by a local chief or well-known businessperson. This process is mostly compliant with international standards.

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1   International standards refer to those described in the ISO 12812 series of standards and technical specifications, see https://www.iso.org/news/2016/05/Ref2083.html

Relationships with the Governments

Between MPSPs and the governments

The MPSPs in the three regions have very different relationships with the government:

- **Somaliland:** ZAAD has an active relationship with the government. They share reports with the Bank of Somaliland on a regular basis, including subscriber reports and financial reports, and have an open dialogue with them. They also participate in the development of regulations through their participation in validation workshops. It is a consultative process. Their main counterpart is the Bank of Somaliland.

- **South-Central:** Hormuud does not share any information with the government. In the past, they were not involved in the development of policies either. However, this relationship has improved recently as they were invited to provide inputs towards the National Communications Act (2017) and the Mobile Money Regulation (2019). Their main counterpart is the Central Bank of Somalia.

- **Puntland:** There is a very weak relationship

between Gollis and the government. Gollis is not involved in the development of regulations and does not formally share information with the government. However, they are sometimes asked by the Ministry of Telecommunications to share information about their SIM and mobile money users. Contrary to the other two regions, their main counterpart is the Ministry of Telecommunications rather than the Puntland State Bank.

> " We have a good relationship with government, more specifically the Ministry of Telecommunications and the Ministry of Commerce. We don't work together for the development of regulations but work together on telecommunications [implementation]."
> **– MPSP, Puntland**

Between INGOs/agencies and the governments

INGOs/agencies are involved with the governments in the development and implementation of safety net programmes, but the governments are not involved in their relationship with MPSPs. In the development of safety net programmes, in Somalia, INGOs/agencies first interact with the government at the Federal level, with the Ministry of Planning, Investment and Economic Development (MoPIED), and the Ministry of Labor and Social Affairs (MoSA). They then negotiate at the state and district levels.

In Somaliland, INGOs'/agencies' counterparts are the Ministry of Planning and Development (MoPD) and the Ministry of Employment, Social Affairs and Family (MESAF). They then negotiate at the municipality level.

2 Identified challenges

MPSPs

The three MPSPs from the Hormuud conglomerate share common opinions concerning the level of regulation that surrounds the mobile money landscape. The mobile money space has been largely self-regulated in the past 10 years, which has both advantages and disadvantages. On one hand, the lack of regulations helps their business as it dissuades newcomers from entering the market, leaving the majority of the market share to the conglomerate, and can result in lower fees which benefit the customers. Somalia's mobile money system are some of the few in the world that are free at point of utilisation. A lack of regulation means that customers' rights are not protected so are at the mercy of the private sector and deposited funds are at a higher risk as liquidity rules are not enforced. Allegation of corruption is common, as MPSPs pay money to the local government and non-state actors to facilitate mobile money processes, which are often undocumented.

The three MPSPs have different levels of interest regarding their involvement in the regulatory process. In Somaliland, regulations seem to be changing at the right pace, as new regulations are developed with the emergence of new technologies. ZAAD expressed particular interest in developing regulations related to data and consumer protection, to both protect the consumers and the MPSPs. In South-Central, there is interest in developing more regulation to benefit the private sector, not just the government, as well as implementing the current regulations. MPSPs also had an interest in being more involved in the process of developing regulations. In Puntland, there is very little involvement of MPSPs in regulatory development and no interest on the MPSP side to have more regulations implemented or to be more involved in the process.

> " We were working without rules and regulations for the last 10 years. To work in such an environment had its advantages and disadvantages… We want more regulations that benefit the private sector, not just for the government. And these regulations should be consulted with us during their drafting and enacting as well so that we can have our say." **– MPSP, South-Central**

Technology companies

Technology companies could offer solutions towards the improvement of the mobile money cash transfer system, but have cited several challenges which have stopped them from investing in Somalia so far:

- **Instability:** instability would render market entry difficult for any type of business, whether referring to insecurity or political instability.

- **Poor business environment:** the business environment in Somalia is not conducive for new market entrants from any sector. The weak regulatory framework and lack of implementation leads to corruption, which is difficult for new entrants. Insurance is very difficult to obtain for businesses.

- **Lack of financial service regulations:** the regulatory framework is not well defined, leading to potential money laundering and foul play.

- **Lack of KYC checks:** when creating APIs and portals, technology companies need to sign data protection contracts with MPSPs. There is a need for high KYC requirements and regulations, which is not currently the case in Somalia.

- **Centralised system:** there is a perception that the Central Bank of Somalia has control over how mobile money works and is particularly involved in the process in Somalia.

- Potential new entrants cite the involvement of the government in setting up their business as a challenge.

- **Immaturity of infrastructure:** technical challenges of the telecommunications ecosystem.

- **Lack of customer interest:** none of the INGOs/ agencies the technology companies work with have shown any interest in using their services in Somalia.

> " We do not work in Somalia because there are technical challenges in bringing together Somalia's telecommunications ecosystem, the regulatory framework is not clearly defined, infrastructure is not mature, there is political instability and potential for money laundering. Additionally, there are instabilities, which is difficult for any business." **– Technology firm, Nairobi**

INGOs/Agencies

INGOs/agencies cited the uniqueness of the Somali context. Technology innovation is fast paced, which offers a lot of opportunities. However, INGOs/ agencies perceive there are many challenges associated with the environment, namely the largely self-regulatory space and the lack of a national ID system. Authentication, receipt verification and systemic risks were the main challenges shared by

INGOs/agencies. INGOs/agencies have expressed the lack of leadership of the government as a challenge. The space is very much self-regulated by the MPSPs, rather than being led by the government. INGOs/agencies also cited inconsistencies within the Federal government, and also between the different levels of government.

> " The federalist structure of Somalia makes programming and discussions with the government difficult. First, we discuss with the Federal Government, then they discuss with the district levels. … State level also has its own complications because there are frictions between the federal and the States levels." **– INGO/agency**

INGOs/agencies also complained about rash decisions made on the side of the government. A particular example was cited whereby the Government of Somaliland decided to pass a law to tax all cash transfers. This issue was resolved with

the help of the Cash Working Group. However, they would like to limit these rash decisions and create a more consultative process when it comes to cash transfers.

> " Often there are challenges with the government as they impose rules from one day to the next." **– INGO/agency**

3 Potential solutions

The governments could provide support to the mobile money cash transfer process in Somalia by taking steps towards facilitating the business environment in broad terms, but also by developing regulations associated with particular components of the process. In the broader sense, the governments could work on clarifying and implementing existing regulations, update regulatory guidance to address issues created by these disruptive innovations as well as developing policies and regulations to enable more conducive business environments overall. In the more targeted sense, the governments could work towards developing and implementing regulations related to identification, data and consumer protection, and financial stability.

4 Targeted recommendations

Topic	Recommendation	Difficulty[2]	Timeframe[3]	Cost[4]
Identification (Ministry of Planning, Investment and Economic Development/ Ministry of Planning and Development and Central Bank/Bank of Somaliland)	Support INGO/agency and MPSP initiatives to create a common population registry	Low	Medium-term	Low
	In Somaliland: Increase efforts to increase the accessibility of national ID cards to all sections of the population, including decreasing the cost, easing the birth certificate criteria and participating in campaigns to register those in remote areas	Moderate	Medium-term	Moderate
	In South-Central: Continue efforts in the creation of a national ID system, with the support of the World Bank through SCALED UP	High	Long-term	High
Data and consumer protection (Central Bank/ Bank of Somaliland)	South-Central: Implement the articles related to consumer and data protection provided in the Mobile Money Regulation and expand on them to include articles related to safeguarding funds and deposit insurance	Moderate	Medium-term	High
	Somaliland: Include articles on consumer and data protection in the new Mobile Money Regulation	Low	Short-term	Low
Financial stability (Central Bank/Bank of Somaliland)	Develop regulations related to financial stability to create confidence in the mobile money system by decreasing the potential for fraud and ensuring solvency to minimise the risk of collapse.[5] This would encourage new entrants and support the ecosystem in general	Moderate	Medium-term	Low
Existing regulations (Central Bank/Bank of Somaliland)	Clarify and implement existing regulations to encourage external technology providers to enter the market and foster innovation[6]	High	Medium-term	High
Business environment (Ministry of Commerce/ Trade)	Provide a more conducive business environment to attract new entrants to work in Somalia/Somaliland, in particular regional technology firms[7]	High	Long-term	High

2   The level of difficulty refers to the level of effort and coordination required to implement the recommendations. Recommendations with a 'low' difficulty level might only require coordination within one type of stakeholder, while those with a 'high' level may require coordination between multiple types of stakeholders.

3   The timeframe refers to how long it is assumed to take for a recommendation to be implemented. 'Short-term' recommendations are those that could be implemented within a period of three months, 'medium-term' could be implemented between three months and year, while 'long-term' recommendations could be implemented over period of more than a year.

4   The cost refers to how much each recommendation is expected to cost to implement. 'Low'-cost recommendations should require little to no cost at all to implement, 'medium'-cost recommendations would require a certain amount of investment but which could be covered by one type of stakeholder, while 'high'-cost recommendations would require significant investment from multiple types of stakeholders.

5   For more details, see 'Regulatory Environment Analysis' within this series of documents

6   Ibid

7   For more details, refer to the World Bank Group's 'Doing Business Somalia 2020': https://www.doingbusiness.org/content/dam/doingBusiness/country/s/somalia/SOM.pdf