Every year, Somali migrants around the world send approximately $1.3 billion to friends and families at home, dwarfing humanitarian aid to Somalia.\(^1\) Of these remittances, over £100 million comes from the United Kingdom.\(^2\) Individual transfers are usually less than £200, and often as little as £25: average income in Somalia is under £200, a year. Families depend on the money for basic costs such as food, water, education and healthcare, and to cope with new crises. A recent report by the UN Food and Agricultural Organisation shows that up to 40 percent of families in Somaliland and Puntland receive some form of remittance, and that the money is integral to their survival.\(^3\) As organisations working on the ground across Somalia we know that families in South Central are also heavily dependent on remittances.

However, banks and regulators are in danger of inadvertently undermining this lifeline and driving it underground, as interpretation of UK and USA money laundering and counter terrorism legislation becomes tighter and banks more risk adverse. The remittance sector is increasingly perceived as too high risk, and accounts of Money Transfer Operators (MTOs) are being closed, partially as a result of regulator fines of banks involved in money laundering in the USA. Today Barclays is the only bank in the UK still providing this service to Somalia. However, it plans to close all Somali MTO accounts by the end of September in response to perceived legal and reputational risk of providing banking services to MTOs.

While the bank’s decision affects a number of remittance receiving countries, remittances are particularly important in Somalia where over a million people are in need of humanitarian aid, over two million people are displaced,\(^4\) and where hunger and conflict have been an everyday experience for many. The decision will have an effect beyond the UK as many MTOs based in Europe route money to Somalia through the UK. Today Barclays is the only bank in the UK still providing this service to Somalia. However, it plans to close all Somali MTO accounts by the end of September in response to perceived legal and reputational risk of providing banking services to MTOs.

Somalia currently has no formal banking sector and this corridor is the only official means of getting money into the country at a time when the UK government is substantially investing in building stability. Pushing transfers underground risks disrupting money flows and potentially pushing them into the wrong hands. This would undermine a sector that is increasingly attempting to self-regulate and comply with relevant legislation. It would also push up the cost of transfers, impacting the most vulnerable households.

There is a need for a long term solution to the challenges raised by the international remittance sector, not just a quick fix. The financial sector must consider its impact on already vulnerable communities and adopt a pro-poor approach that promotes financial inclusion. Banks, Government and MTOs must urgently agree on a way forward to keep the money flowing in the short as well as the long term. The cost of failing to do so will be borne by people who have already suffered too much.

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\(^1\) In 2012, when funding was unusually high because of the drought, total humanitarian funding to Somalia was $861 million https://fts.unocha.org/reports/daily/ocha_R10c_C181_y2012_asof_1308230101.pdf


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**Top:** A woman uses cash transferred through a money transfer operator to buy goods in Kulmiye, Somalia. Daniel Gerstle / ©Adeso

**Below:** A woman receives cash relief from Adeso through a Money Transfer Operator in Badhan, Somalia. Daniel Gerstle / ©Adeso
RECOMMENDATIONS

To British Banks

• Barclays should extend the deadline for closing remaining MTO accounts by 12 months to allow a comprehensive solution to be established that works for banks, Government, MTOs and the Somali people. Remittance transfers must not be driven underground even in the short term. Regulators should encourage and support such an extension.

• Banks should review how they manage risk in this sector and develop specialised services for MTOs engaged in remittance transfers. Banks should acknowledge their social responsibility, the fragility of the remittance sector, and the critical role that MTOs play. They should review MTOs’ applications on a case-by-case basis and identify key risks and mitigations both on the transferring and the receiving end. Measures should be proportionate both to the regulatory risk and to the potential impact of any closure. Banks should invest in managing this risk working closely with MTOs and call for the UK Government to clarify, and if necessary revise, regulations to allow these vital transfers to continue.

• Banks beyond Barclays should come forward to ensure that this service continues.

To the UK Government

• Given the acknowledged social, economic and political significance of remittance transfers, the UK Government should work with the financial services sector to ensure remittances continue to flow to Somalia in the short as well as the long-term. The Government should lead a review of the remittance sector while ensuring that there is no interruption in money flows reaching vulnerable people.

• The FCO, DFID and HM Treasury should coordinate initiatives within Government, and facilitate dialogue between regulatory bodies, banks and MTOs to identify potential risks and collaborate on best practices. Banks and regulators should be transparent about which regulations cause problems, and promote flexible, workable and shared solutions.

• The Government should engage key international regulators to ensure other countries’ regulations do not adversely impact regulated remittance flows. Since USA legislation particularly is a major element in the risk analysis of UK based banks, the UK government should use its influence to promote a robust and transparent system that has the buy in of key international stakeholders.

• The UK Government should support Somalia to establish a robust banking sector and regulate its payment systems through technical assistance and capacity-building and as part of a broader financial inclusion strategy.

• HM Treasury and HMRC should work with Banks and MTOs to identify and support capacity building needs in the UK that would build the banks confidence in MTOs. This could include mechanisms to integrate MTOs into an automated clearinghouse which would aggregate transactions originating from all MTOs and agents, thereby helping regulators and MTOs identify remitters attempting to avoid scrutiny by sending funds through multiple MTOs.

• Explore the possibility of reinforcing and extending mobile money transfers with banks and MTOs as appropriate. At least three Somali mobile network providers have developed money transfer platforms with biometrics for registration and verification, and Somalis are already using mobile technology for payments. Efforts to develop this throughout the country should be encouraged following appropriate risk assessment.

Somali MTOs should:

• Improve collaboration within the money transfer industry, invest in improved standards and strengthened self-regulation. This should include strengthening agreed ways of working across the industry, investment in systems to identify and report suspicious activities, investment in the training and monitoring of agents, improving reporting and documentation, and strengthened oversight of offices.

• Invest further in developing money transfer technology for Somalia, including reaching out to the Somali diaspora in the UK to promote e-transfers and investing in community education programmes to promote this, and developing mobile money further.

Somali authorities should:

• Rapidly pass legislation to strengthen the Somali banking system and facilitate regulation of international transfers. In addition to establishing a much needed formal banking system, Somali regulation to prevent money laundering would demonstrate the Federal Government’s willingness to listen to the concerns of international partners, as well as build the confidence of banks.

5 These recommendations are based on research Oxfam, Adeso and Inter American Dialogue undertook in Somalia as well as the experience of NGOs working on the ground in the country.
Top left: “I receive about £300 from my family in the UK on a monthly basis. This really helps. If I could not receive the money, the loss of that extra income would have a negative impact on my life and that of my family.” Farhan Jama, Hargeisa. ©NAGAAD

Top right: “My family depends on relatives who live the UK, sometimes they send me money. What worries me is the health of my children because I don’t have anyone to help me or a good job. I rely on alms when my children are sick. If banks close accounts of Somali Money Transfer Operators, it will affect me directly. My relatives will not be able to send me money, this will put my life in a situation I am not able to predict right now.” Fariya Hassan Abdi, Garowe. ©World Vision

Below left: “Closing down the bank which we use to receive remittances will be a serious obstacle to us Somalis as we get financial support from our family members in the UK. Children have many needs including clothing. Without a source of finance, we will not be able to nurture and educate our children well. Family breakdown will be the inevitable result.” Maryan Khalif, Puntland. ©World Vision

Below right: “There are no banks here. There is no other way for us to send and receive money to and from our friends and relatives. Without this service there will be no life – how else would we survive?” Mohammed Barbar, Dobley. ©Oxfam