



**A Report on Supporting Systems and Procedures  
for the Effective Regulation and Monitoring of  
Somali Remittance Companies (Hawala)**

A REPORT ON

**SUPPORTING SYSTEMS AND PROCEDURES  
FOR THE EFFECTIVE REGULATION AND  
MONITORING OF SOMALI REMITTANCE  
COMPANIES (HAWALA)**

Prepared for UNDP Somalia

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## TABLE OF CONTENTS

1. Objectives	....3
2. Overview	....4
3. A Brief History of Hawala In Somalia	....5
4. An Assessment of Current Regulatory Procedures	....6
5. The Impact of Remittance on the Exchange Rate in Somalia	....7
6. Current Operations, Management and Scope of Remittance Companies	....9
6.1 <i>Flow of funds in remittance operations</i>	....9
6.2 <i>Types and operations of remittance companies</i>	...10
6.3 <i>Scope of remittance to and from Somalia</i>	...14
6.4 <i>Management of the remittance companies</i>	...15
7. Impact of the Closure of Al-Barakaat	...16
8. The Norwegian Situation	...17
9. The Abu Dhabi Declaration On Hawala	...18
10. Opportunities and Challenges Facing Remittance Companies	...19
10.1 <i>Opportunities</i>	...19
10.2 <i>Challenges</i>	...20
11. The Need for a Commercial Bank	...20
12. The Way Forward: Bridging The Gap	...21
12.1 <i>Transparency, accountability and 'knowing your customer'</i>	...21
12.2 <i>Managing the organization</i>	...22
13. Recommendations	...23
13.1 <i>Short term action plan for compliance (3-6 months)</i>	...23
13.2 <i>Immediate recommendations</i>	...24
13.3 <i>Medium/Long-term Support for the Establishment of a                   Commercial Bank in Somalia (12-18 months)</i>	...25
14. Role of UNDP and International Organizations	...26
15. Conclusion	...26

## APPENDICES and ATTACHEMENTS

<i>Appendix I</i>	...28
FATF special recommendations on terrorist financing	
<i>Appendix II</i>	...30
List of 40 recommendations from FATF on money laundering	
<i>Appendix III</i>	...45
Risk Management	
Attachement I	...46
Attachement II	...49
Attachement III	...52
Attachement IV	...60
Consultations	...67
Bibliography	....70

## **SUPPORTING SYSTEMS AND PROCEDURES FOR THE EFFECTIVE REGULATION AND MONITORING OF SOMALI REMITTANCE COMPANIES (HAWALA)**

*“... There [is] a need to devise more transparent remittance systems so that the Somalis could receive benefits and funds, which could not be diverted to support terrorism.”*

**Ambassador Alfonso Valdivieso, Columbia, Security Council. United Nations – March 11, 2002**

### **1. Objectives**

The Somali remittance system<sup>1</sup> or Hawala<sup>2</sup> must undertake to transform their operations into legal, efficient and viable organizations that comply with recognized international financial standards in order to meet the needs of their customers for years to come. This report will analyze the current situation of the Somali remittance operations in order to focus upon strategies to support the achievement of the following objectives:

- To clarify understanding of the current operations of Somali remittance companies, the structure of their international operations and their management;
- To identify the regulatory procedures and laws of the present administrations throughout Somalia and to assess their application;<sup>3</sup>
- To outline specific arrangements that will satisfy the requirements of concerned governments;
- To recommend specific actions to bridge gaps identified.

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<sup>1</sup> The terms “remittance system, company or operation” are used here also to refer to what are sometimes called “alternative remittance systems”.

<sup>2</sup> The term “Hawala” means, “transfer” in Arabic. “Hawala” will be used interchangeably with “remittance companies or operations” in this report.

<sup>3</sup> There was no opportunity to conduct the fieldwork in Mogadishu and Puntland; however, informal discussions with officials from both areas were undertaken in Nairobi.

**NOTE:** UNDP Somalia is grateful for all who provided this report with information, especially Dahabshiil who made available their offices, personnel and records. This information contributed in understanding the internal workings of the Somali remittance operations.

## 2. Overview

The collapse of the central government of Somalia in 1991 disrupted all facets of the state apparatus. Following over a decade of civil war and an absence of central authority the country is fragmented, with isolated and independent administrative entities emerging in regions throughout Somalia.

Yet, despite the impact of more than ten years of self-inflicted tragedy and chaos, the Somali people have not lost their traditional sense of entrepreneurship and business initiative. Local and regional institutions, businesses and individuals have replaced the fiscal and administrative functions of a central government. New enterprises are being established and old ones are being reinforced to provide for the basic needs of the community. A good example of this is a private airline that began with one small twin-engine airplane and US\$30, 000 investment that has expanded to become an international airline. The Airline currently provides flights from Somalia to Paris and Amsterdam. Another example is the telecommunications sector, which is highly developed and privately owned. Similarly, today in Somalia the services provided by private businesses and entrepreneurs have extended to financial services including those that are traditionally provided or regulated by government.

Originating in Southern Asia, the remittance system developed to fulfill the needs of migrant workers and has followed immigration patterns from one region to another and can now be found in most areas of the world. Remittance systems remain a significant method for businesses and individuals to repatriate funds. The system is favored because it usually costs less than moving funds through the formal banking system, it operates 24 hours and seven days a week, it is almost always reliable and it requires minimal paper work. In remittance systems, funds are paid to an agent on one end in one country or region and dispersed by another agent in a different country or region. The system is built on a relationship of trust and therefore can flourish in an environment characterized by the absence of oversight or regulation such as Somalia.

A key factor of remittance systems and one that is shared with formal or correspondent banking is that the monetary value is moved from one location to another often without the physical movement of currency. In many instances elements of legitimate regulated financial services are employed, in other cases companies operate in secret and do not maintain adequate accounts or records making regulation difficult if not impossible. In all cases remittance systems rely upon some form of netting or book transfer procedure to transmit value.<sup>4</sup>

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<sup>4</sup> Financial Action Task Force on Money Laundering: Report on Money Laundering Typologies 1999-2000.

### 3. A Brief History of Hawala In Somalia

In Somalia remittance dates back many decades. In the 1960s a significant number of Somalis migrated to central and eastern parts of southern Africa, drawn by employment opportunities in the transportation industry. In particular the construction of the Tanzania-Zambia railway line attracted many semi-skilled and unskilled laborers.

In the 1970s and 1980s the oil boom in the Middle East and political oppression at home increased migration to the Gulf States, North America and western European countries with migrants in search of employment and a better quality of life. During this period the most common means of remittance was the 'Franco Valuate' system. Under this system Somali laborers working in the Gulf States purchased high-value consumer goods and shipped them back to their families or simply transferred a portion of their earnings via Somali traders. In the first case the traders then took the proceeds of the sale of the goods and paid the laborers' relatives in local currency. But Franco Valuate was an inefficient and time-consuming process.

In the 1990s the collapse of the Somali state and the economy coupled with the ongoing civil wars further increased migration to the western countries and many other parts of the world. It is estimated that over 750,000 Somalis currently reside and work in North America, Europe, Australia, New Zealand and the Gulf States. Many migrants support their families by remitting part of their earnings through a network of remittance companies operating in more than 40 countries.

What started as a way for an émigré to send cash back to their extended families has in many cases blossomed into full-blown financial operations. The remittance companies are the sole international financial institutions operating in Somalia. They are a lifeline for many Somali families, a conduit for hard currency entering and leaving the country, as well as an instrument for trade and commerce both in Somalia and abroad

Regardless of the formation of a strong central government and/or banking system in Somalia, the remittance/Hawala system will remain an integral part of the Somali economy and monetary system for the foreseeable future.<sup>5</sup> The reasons are as follows:

- Remittance companies have the trust and confidence of their customers;
- Remittance companies have an extensive network of agents that service almost all the towns and villages in Somalia; as well as all

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<sup>5</sup> For discussion of the role of the remittance in the economy see "The Role of International Remittance on the Economy in Somalia" by Abdirahman Ahmed Mohamed, Master's thesis, Department of Economics, University of Oslo, Norway, August 2000.

- major cities and towns in other countries populated by Somali Diaspora;
- Remittance operations are far more efficient than other financial services;
  - There are social and historical factors that reinforce a relationship of trust between individuals who are doing business, these are tied to the extended family, geographic and clan factors;
  - The cost of remittance is far cheaper than other financial institutions, such as banks.

The remittance system in Somalia must not be viewed solely as a stopgap measure, but in the context of the long-term financial needs and preferences of the country.

#### **4. An Assessment of the Regulatory Procedures of the Present Somali Administrations**

The terms of reference for this report include the assessment and identification of the regulatory procedures and laws of the present administrations throughout Somalia and assessment of their application. With the exception of the Northwest region (Republic of Somaliland), much of Somalia could not be visited. However, informal consultations were held with officials from both Mogadishu and Puntland in Nairobi. Therefore this section is currently limited to a discussion of the situation in Somaliland.

Fieldwork was conducted in Hargeisa during the last week of February 2002. Meetings were held with the Office of the Vice-President, Governor of the Central Bank, remittance companies, individual business establishments and the Chamber of Commerce. All parties agree upon the need for rebuilding the financial infrastructure of the region, especially the formation of commercial bank in the private sector.

The Central Bank of Somaliland is responsible for directing both the monetary system and the currency. The law allows for the establishment of a development bank, commercial bank. Private banks shall be accorded preferential treatment to conduct commercial banking operations.<sup>6</sup>

Due to the absence of commercial banking operations, the Central Bank is responsible for the formulation and implementation of regulations governing financial institutions including the remittance companies. It is the responsibility of the Central Bank to see that financial legislation is passed into law and to assess the application of such legislation. Interviews with officials of the Central Bank

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<sup>6</sup> See the revised Constitution of the Republic of Somaliland

revealed that the bank has developed the legal framework to regulate financial institutions including remittance companies (see attachment #). However execution of this framework is hampered by a lack of institutional capacity and trained personnel to oversee its application.

The Central Bank has authorized the formation of a government-owned commercial bank and selected the Ethiopian commercial bank as a corresponding bank. However, some of the businesspersons interviewed for this report were skeptical of a government-owned commercial bank due to pre-war experiences. As one businessman reflected “it is hard to persuade a Somali to use a commercial bank controlled and owned by a Somali government”. This sentiment is reflected in people’s use of remittance companies to conduct their business and utilization of them as banks for deposits.

The Central Bank of Somaliland has a dedicated and professional leadership and has made a good start in helping to rebuild the shattered economy and financial sector. However, it is clear that more needs to be done. Support from UNDP and the international community will go a long way towards the revitalization of the financial sector.

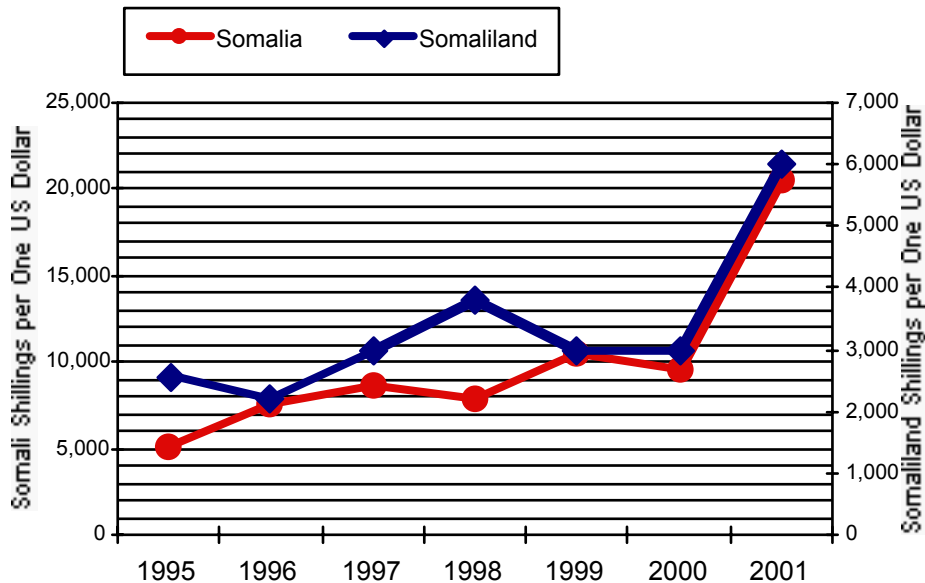
Preliminary conversations with officials from Puntland and the Transitional National Government in Mogadishu indicate that attempts to revive the financial sector are at rudimentary stage. Further analysis is required to complete this part of the report.

## **5. The Impact of Remittance on Exchange Rates**

Somali remittance operations and money exchangers have sprung up both at home and abroad. In Somalia hundreds of vendors deal in currency transactions, setting daily the exchange rate on the basis of localized contingent factors.

Remittances have constituted the major source of foreign exchange earnings for the last ten years. The flow of remittances to and from abroad therefore significantly affects the exchange rate in Somalia.

The regular or monthly flow of remittance to provide support for family members affects the fluctuation of the exchange rate incrementally. However, the exchange rate is most commonly influenced by the large remittances intended for trade, businesses and investment. The sensitivity of the exchange rate to the flow of remittance can be seen by the data presented below, which shows the depreciation of the Somali Shilling from August 1995 to December 2001.



Source: Data from FEWS NET and Somalia

During the month of August 2001 there was turmoil in the currency markets in Somalia due to the sharp drop in the value of the Somali shilling as shown in the graph above. In Mogadishu, the value of the Somali Shilling (So. Sh.) dropped from 9,500.00 to 20,000.00 per US dollar – a drop of nearly 116% during this period. Similarly, the value of the Somaliland Shilling (SL. Sh.) in Hargeisa dropped from 3,000 to 6,000 per dollar in August 2001 – a drop of 100% during the same period. This is the sharpest annual drop in value of the Somali/Somaliland Shillings in the last six years (August 1995 to December 2001). The trend in exchange rates of Somalia and Somaliland shillings for the past seven years indicate that though the currencies continuously depreciated against almost all foreign currencies throughout the period, this was the sharpest annual drop recorded. In fact the maximum annual depreciation recorded in the first five years (August 1995-December 2000) was about 50 percent for the Somali Shilling and 35 percent for the Somaliland Shilling respectively.

The major reasons behind the unusually sharp fall in the Somali Shilling last year (August 2000 –December 2001) include:

- A massive injection of counterfeit Somali banknotes into the main markets of Somalia at the beginning of 2001;
- The export ban on Somali livestock imposed in mid-September 2000 by the Gulf States, which caused an estimated loss of income of about \$120 million from September 2000 to September 2001;

- The shutdown of the largest remittance company, Al-Barakaat, following financial probes in the wake of the September 11 terrorist attacks in the USA, which disrupted the flow of remittances to Somalia.

Since the foreign exchange rate in Somalia is market driven, a greater inflow of remittances lowers the exchange rate, while a lesser inflow causes it to rise. At present there are at least three foreign exchange regimes in Somalia corresponding to different administrations and locations. The three principal currency markets are Bakaraha in Mogadishu, Hargeisa in Somaliland, and Bosasso in Puntland. The Bakaraha exchange rate is the pace setter rate that influences the other regional rates, although in Somaliland the authorities regulate the foreign exchange market to some degree.<sup>7</sup> Hence multiple exchange rates operate in Somaliland as follows:

- (i) Official exchange rate: used for accounting purposes only, first to convert the foreign exchange receipts into Somaliland Shillings for credit to the government treasury and second to curb the public sector wage bill.
- (ii) Import duty rate: used for conversion and calculation of the value of the goods imported for the purpose of levy of customs duty. The government sets this rate.
- (iii) Market rate: market forces of demand and supply determine the value of the currency.

Any disruption of the flow of remittances to Somalia will have an adverse impact on the exchange rate, and the purchasing power of households.

## **6. Current Operations, Management and Scope of Remittance Companies**

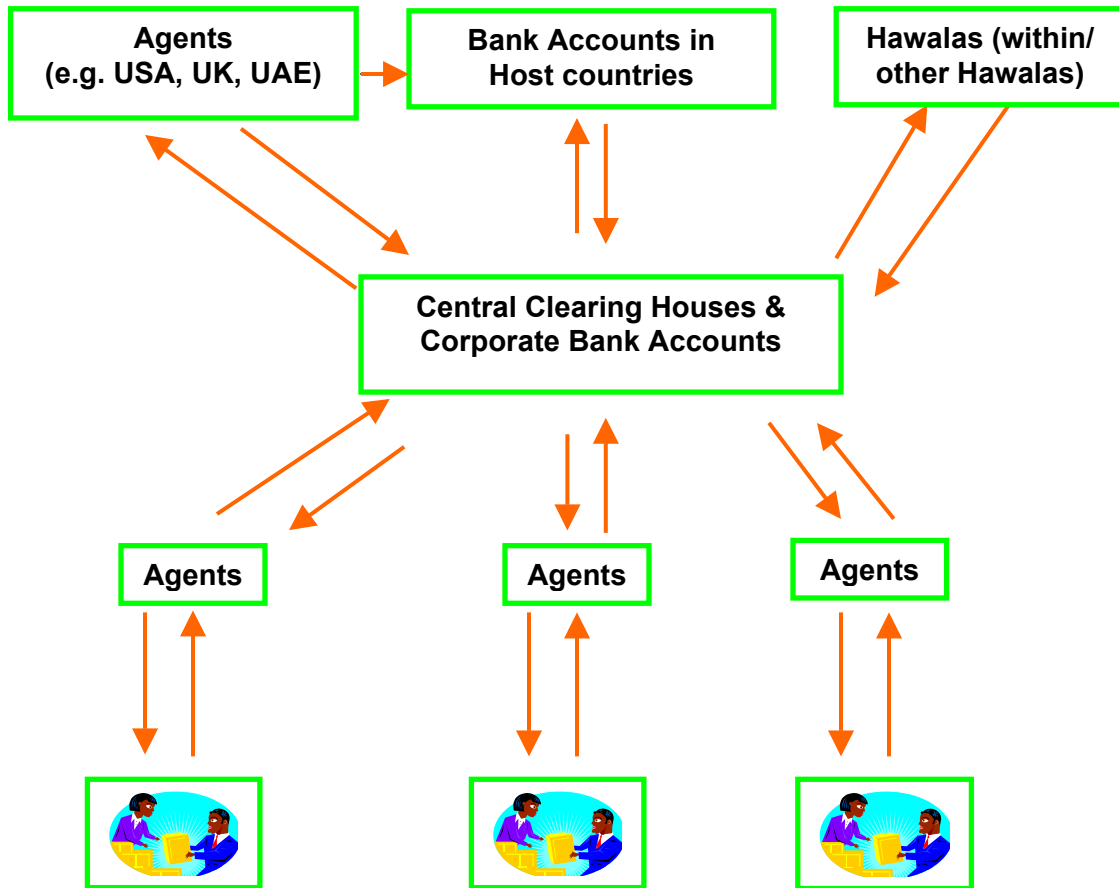
### **6.1 Flow of funds in remittance operations**

The flow of funds within the remittance operations is depicted in the figure below. Each remittance company has agents in various countries throughout the world. The process of remitting funds is simple. An individual contacts an agent of the remittance company in the country where they reside, presents the cash they want to remit, pays the fees, and supplies information of the recipient. The agent deposits the cash in a local bank account to be transferred to the company bank account either in Djibouti or Dubai. At the same time the agent faxes or e-mails information, including the amount, the sender, the recipient and instructions as to where to deliver, to a clearinghouse. The clearinghouse contacts the agent closest to where the recipient lives and delivers the cash in U.S. dollars and the transaction is completed.

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<sup>7</sup> During the week of May 1, 2002, the Bakaraha market, the biggest open market in Mogadishu, was burned down. It is too early to assess the magnitude of the losses.

## The Flow of Funds In Remittance Process



## 6.2 Types and operations of remittance companies

There are at least eight remittance companies operating internationally and many smaller ones operating both inside and outside Somalia. The most significant companies are as follows:<sup>8</sup>

<b>Name of remittance company</b>	<b>Location of Headquarters</b>
<b>Amal Express</b>	Ras El-Khimah, United Arab Emirates
<b>Al-Mustaqbal</b>	Dubai, United Arab Emirates
<b>Barwaqo Financial Services</b>	Dubai, United Arab Emirates
<b>Cidgal</b>	Djibouti, Republic of Djibouti
<b>Dalsan</b>	Nairobi, Kenya
<b>Dahabshil</b>	Hargeisa, Somaliland
<b>Kaah Express</b>	Nairobi, Kenya
<b>Salama Money Express</b>	London, United Kingdom
<b>Towfiq</b>	Dubai, United Arab Emirates

There are two types of remittance operations in Somalia. For the purposes of this report they can be classified as domestic and international.<sup>9</sup> Though both types operate in a similar fashion there are differences in scope, kind of transaction and the medium of exchange.

Generally domestic operations are rudimentary, informal, and personalized. The domestic is for local purposes and operates all over Somalia, particularly in remote areas and villages. In most cases income is locally generated and the medium of exchange is local currency. For example, an individual working in one of the major cities or towns in Somalia earning income in local currency remits a portion of their income to relatives in a remote area of the country. A small retail shop acquiring a 100-pound bag of sugar from the nearest town remits local currency and receives the bag of sugar. In another instance, villagers bring their commodities into the nearest town to sell for cash and deposit this cash with the remittance company to receive it at the home end. In the last case the use of the remittance company is primarily for security. In all cases a commission is charged.

Most of these domestic remittances are locally handled by individuals, operating high frequency (HF) radios. Such operations are widespread throughout the country and are either small independent operating agents or agents of the major remittance companies.

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<sup>8</sup> Until its recent freezing of operations as a result of financial investigations following the September 11 terrorist attacks on the USA, Al-Barakaat was the largest remittance company in Somalia in scope and network.

<sup>9</sup> Domestic type: primarily deals with transactions within the country and the immediately adjacent areas of neighboring countries. International Type: primarily deals with cross-border transactions and operates all over the world.

In contrast, the international type of remittance company is highly sophisticated. Reaching many parts of the world it conducts business through international banks and primarily deals in hard currencies. International operations use electronic communication equipment, i.e. mobile phones, faxes and e-mail to communicate and also make use of regulated financial institutions. Monies transferred from far away can be in the hands of the recipient in Somalia in less than 72 hours.

International remittances can be loosely divided into three categories:

*Category I: Remittance to support the livelihood of Somali families.*

Transactions in this category are usually between US\$100-\$500 per month. The purpose of this category of remittance is to provide support for the daily needs of the family and it is a relatively straightforward transaction. For example, a Somali in Washington, D.C. who sends \$200 per month to his/her family in Hargeisa will contact a local Washington agent of a remittance company that he/she opts to work through. He/she will then provide cash to the local agent who deposits it in a Washington bank account owned by the remittance company. The agent then sends a message by fax, e-mail or telephone to the central location of the company or clearinghouse with all the necessary information.<sup>10</sup> The clearinghouse contacts their local agent in Hargeisa and instructs the local branch to transfer \$200 to the recipient family. The sender pays commission on the transfer, which falls between 5-7 percent. Local agents get a portion of the commission; the remaining sum is revenue for the company. In some cases records are kept of the transactions in other cases there is no 'paper trail'.

*Category II: Remittance for investment in Somalia*

Transactions in this category average over US\$100,000. This category of remittance is for the purpose of investment, such as buying a house, land, or starting a small business, it is usually a one-off transaction. Transferring these large amounts of money is essentially the same process as outlined above; the sender contacts a local agent, provides cash, pays a commission, and requests money be transferred to a contact person in Somalia, or held in an account at the remittance company until he/she is ready to withdraw. If held in an account it is usually not interest bearing and is simply held until it is transferred to another foreign account or an individual in Somalia at a later date. In this case the remittance company is performing the role of a bank. Funds are usually in foreign currency, preferably US Dollars, and the customer pays a fee to keep the deposit in the remittance company account. Occasionally the customer is provided with a checkbook in order to withdraw the funds from another branch of

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<sup>10</sup> 'Clearinghouse' refers to the central location of the remittance company, where all transactions are sent. In certain cases the clearinghouse is the same location as the company headquarters in other cases it is not.

the same remittance company. Records are kept for this type of transaction, although it is not clear for how long and how comprehensive these are.

*Category III: Remittance for conducting trade in the international markets*

Remittance companies play an important role in facilitating trade in Somalia. In the absence of regulated commercial banks, the remittance companies are the conduits for moving funds to and from Somalia for trade activities. Most transfers in this category are for amounts over \$500,000. A typical example would be a trader who decides to buy commodities on the international markets, he/she then contacts a local agent of the remittance company in Mogadishu or Hargeisa, provides cash, pays commission and asks that the funds be transferred to his/her foreign bank account. The local agent in Somalia contacts the clearinghouse and asks that the funds be transferred to the identified bank account. The foreign bank issues a letter of credit to the Somali trader to purchase commodities in the international market and the goods are then imported back to Somalia. The Somali trader sells his/her commodities in Somalia and transfers the funds in the same process to pay their suppliers and the cycle is repeated again. In this case the remittance company plays the role of a bank, though without issuing a letter of credit, and thus facilitates trade. Records are kept on this type of transactions but it is not clear whether they meet international standards of record keeping.

The flow of remittance to and from Somalia is in most cases a straightforward transaction. The conventional method of analyzing remittance flows and the impact on the local economy primarily focuses on Somalis in the Diaspora remitting from abroad to their families in Somalia. However, this approach does not provide a full picture of the remittance business and its role in the economy.

There is another form of remittance operating from Somalia to abroad; it can be classified as physical remittance which is the informal channel of simply carrying cash to neighboring countries in order to conduct trade. This and other channels make the amount of overall remittance flow difficult to quantify and therefore to fully analyze the impact on the economy.

Physical remittance is an important aspect of the remittance system in Somalia. Cash transfers through informal channels move between Somalia and overseas in a reliable fashion. According to Somali dealers in Somalia, Nairobi and Dubai, cash carrying couriers conduct a significant portion of the trade between Somalia, neighboring countries and the Gulf States. Dealers and merchants receive cash in briefcases then purchase necessary food items, oil, spare parts, construction materials and other consumer items and then ship them back to Somalia by air or sea. The informal nature of such transactions makes it difficult to measure the actual volume of remittance to and from Somalia in any given year.

The following table shows selected commodity imports into the port of Berbera in the year 2001, a portion of the proceeds of these commodities were remitted to foreign bank accounts through the hawala process or were transferred through physical remittance.<sup>11</sup>

<b>Commodities</b>	<b>Metric Tons</b>
Sugar	152,855
Rice	25,770
Flour	25,894
Wheat/Maize	19,503
Cooking Oil	12,813
Fuel	45,782
Pasta	12,535
Bldg Materials	62,599

### **6.3 Scope of Remittance to and from Somalia**

The flow of remittance varies from year to year as it is influenced by the prevailing economic conditions of any particular year. Livestock bans, droughts, natural and man-made disasters, and the closure of borders by neighboring countries all impact on the amount of monies remitted to the Somali economy. The worse the problems that confront the Somali people the more monies are remitted, the better the conditions for the Somali people the less money is remitted. Funds remitted to and from Somalia for the purpose of trade are influenced by the same factors.

Remittance transactions are almost always cash. There are three different classifications of cash management in remittance operations:

- I. Dead cash – this is the cash that is collected by remittance agents on a daily basis but has not yet been deposited in the banks. It is difficult to estimate the amount of this cash.
- II. Transit cash – this is cash that is transferred from a local bank account in any given city around the world to the corporate central bank account in a different city or country. It is a daily transaction by the agents to the mother company accounts. Estimates for this category range \$2 million to \$3 million per day.
- III. Stand-by cash – this is cash that is held by the receiving agent in a given country mainly in Somalia and or an east African country where Somali refugees reside, or in countries where trade transactions are conducted. The amounts are equivalent to that of transit transactions.

<sup>11</sup> Source of data: Port of Berbera Statistics, 2001

It is difficult to quantify the total flow of remittance to Somalia in a given year. A review of the limited studies conducted and in-depth interviews undertaken for this study with traders, remittance companies and estimates from resource persons, estimated remittance nationally to have totaled between US \$800 million to a billion dollars in the year 2000.<sup>12</sup>

The table below shows the range of estimated transactions conducted by remittance companies in the year 2000.

<b>Number of Remittance Companies</b>	<b>Estimated amount of transactions for the year 2000</b>
3 companies	\$225 - \$400 million
2 companies	\$50 - \$150 million
3 companies	Less than \$10 million

Reliable sources, contacted for this study and other surveys conducted on remittance companies, show that in the year 2000 the average monthly remittance flow from abroad to Somalis in Somalia, Ethiopia and Kenya was estimated to be between US\$65 and \$90 million. This amount includes monthly stipends for families and investment in housing, land, businesses and trade. For example, one study estimates that remittance has reached a value of \$500 million in a normal year (I. Ahmed, 2000). In 2000, it is estimated that \$7 million a month was remitted from just the state of Minnesota in the United States. (Source: agents and bankers). From Norway approximately \$7.6 million was remitted in 2001 to Somalia (Aftenposten, Nov, 2, 2001). In the United Kingdom approximately \$12 million per month was remitted to Somalia in 2000 (Source persons). Another reliable source estimates that in year 2000 the flow of remittance to Somalis in Kenya was approximately \$4 million a month. According to the Foreign Minister of the Transitional National Government of Somalia, the impact of the closure of Al-Barakaat on the local economy was between \$25 to \$27 million lost in remittance into Somali economy (Washington Post March 22, 2002)<sup>13</sup>

All estimates regarding the magnitude of remittance to Somalia must be treated cautiously. Remittance companies regard such information as a commercial secret and consequently such data is not freely available.

<sup>12</sup> The low end of \$800 million estimate is conservative. These figures are derived from interviews conducted for this study with owners, general managers, agents of remittance companies, resource persons and traders. The individuals interviewed requested confidentiality and no specific amount should be associated with any company.

<sup>13</sup> Further discussion with TNG officials confirm the amount of \$25 to \$27 million is the impact on the economy per month.

## **6.4 Management of the remittance companies**

Most of the remittance companies are owned and operated by shareholders. Dahabshiil is family owned. The management of remittance companies is generally highly decentralized and in structure is a modified form of franchising. Independent agents represent the companies throughout the world with the exception of agents in cities in which the clearinghouse or headquarters of a company is located, in which case the agent is likely to work directly for the mother company possibly as a salaried employee or receiving fees. Normally an agent would receive 30 percent of fees charged.

Agents are responsible for the management of their offices including registration with local authorities, payment of rent, purchase of office supplies and the hiring of local staff. In addition, they are responsible for complying with all necessary rules and regulations including the reporting requirements of the host government. However, the network that connects all the agents to the clearinghouse is owned and operated by the company. In situations of crisis the remittance company provides legal and other support to its agents.

## **7. Impact of the Closure of Al-Barakaat**

In early November 2001 a leading international remittance company was closed down due to an alleged association with terrorism. The closure of Al-Barakaat created panic and uncertainty both in Somalia and overseas. Neighboring countries including Kenya and Ethiopia reacted to the news of the closure of Al-Barakaat with a periodic crackdown on Somali remittance operations in their countries.

The closure of Al-Barakaat disrupted the flow of remittance to Somalia and had negative effects on both trade and the exchange rates. With the closure of Al-Barakaat, monies belonging to businesses and families were frozen.

*Many small and middle rank traders have therefore lost most of their capital and are now excluded from the market. Many who put their money in the company [...] are facing problems. Many traders were using Al-Barakaat to send their money to Dubai, Djibouti and Yemen: that money is also lost (Roland Marchal, January 2002.)*

In addition, the value of the Somali shilling fell in the main exchange markets. This is because the company played a leading role in the country's economy in terms of providing quasi-banking and telecommunication services, as well as construction and facilitating import/export. Further, all services linked to the delivery of monthly remittances, business transactions, international telecommunication operations and internet that were owned or operated by Al-Barakaat, were stopped.

The general manager of the former Al-Barakaat and his staff submitted to UNDP-Somalia a list of transactions and accounts for businesses and individuals that total over \$9 million, which have been frozen since the closure of the company.<sup>14</sup>

However, contrary to predictions, the closure of Al-Barakaat was not a fatal blow to individuals remitting funds to their families in Somalia. There are indications that the impact on individual Somali families receiving funds from abroad has been minimal, as other remittance companies have filled the vacuum.

Yet, regardless of the immediate impact of the closure of Al-Barakaat, there is an atmosphere of uncertainty about the future of Somali remittance companies. The closure of Al-Barakaat has created a crisis of confidence in remittance operations and it is predicted that more traders will utilize informal channels, such as carrying suitcases of cash, to conduct trade overseas.

In the United States Somali remittance companies are facing challenges associated with the closure of Al-Barakaat and the adverse publicity generated. A number of Somali remittance companies are facing banking issues as major American and Canadian banks are contemplating how best to handle Somali remittance company bank accounts and remain transparent. As the President of the Security Council declared;

*The Council underlines, as a matter of urgency, the necessity to develop mechanisms that facilitate legitimate financial transfer to and from Somalia while preventing further financial flows to terrorists and terrorist groups, taking fully into account the different concerns involved. (Statement by the President of the Security Council on the situation in Somalia [S/PRST/2002/8]).*

## **8. The Norwegian Situation**

In early October 2001 the Norwegian government closed down the operations of the Somali remittance companies operating in Norway, due to allegations of association with terrorism. The closure of these remittance operations created panic and uncertainty among Somalis living in Norway. There are approximately 12,000 Somalis living in Norway remitting US\$636,000 per month to their relatives in Somalia. The impact of this situation on the families in Somalia is devastating. In many families funds remitted from abroad are their only source of income and in the current circumstances Norwegian Somalis and newly arrived Somali refugees cannot remit funds to their families in a reliable manner.

Discussions with the Norwegian authorities for this report emphasized the importance of finding legal mechanisms to ensure the continuance of this vital link between Somalis in Norway and their families in Somalia. The Norwegian authorities are reviewing the situation and expressed concern regarding the

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<sup>14</sup> NOTE: Data is from the general of manager of former Al-Barakaat, however, there is no independent verification of the information.

plight of the Somali people and the impact of the actions taken on Somali families.

Norway is one of the few western countries that have no legal guidelines for the operations of money transfer companies. In most western countries laws are in place and guidelines are established to regulate remittance companies. At the time of writing no legislation to rectify the situation had been introduced.

## **9. Abu Dhabi Declaration on Hawala**

An international conference on Hawala was organized by the Central Bank of United Arab Emirates (UAE) and held on May 15 and 16 in Abu Dhabi, UAE.<sup>15</sup> The delegates clarified misconceptions about Hawala and brought into focus the universal nature and the positive aspects of the remittance system. The participants at the conference came out with loud and clear message, that “Hawala was wide spread and was here to stay and what was needed is regulation and supervision” (Gulf News, May 28, 2002). Most of the delegates agreed to the following:

*...that Hawala is a remarkably efficient system and the need of the hour is to find a workable solution to hawala finance which is acceptable to regulators, law enforcement officers and private sector financial institutions who have to compete with this system of money transfers. (Gulf News, May 28, 2002)*

Discussions with senior UAE Central Bank officials for this report underlined the historical, cultural and trade ties between the people of the United Arab Emirates and the people of Somalia. The officials understand the predicament of the Somali people and the important role the Somali Hawala operators play in the survival of Somali families and the Somali economy in the absence of other financial institutions in Somalia. In addition, the bank officials emphasized the need to formalize and license Hawala operators in UAE, including the Somali Hawala operators.

The participants of the conference recommended the adoption of the “Abu Dhabi Declaration on Hawala” which consist of the following five points:<sup>16</sup>

1. Countries should adopt the 40 recommendations of the Financial Action Task Force (FATF) on Money Laundering and the 8 Special Recommendations on Terrorist Financing in relation to remitters, including Hawaladars and alternative remittance providers.<sup>17</sup>
2. Countries should designate competent supervisory authorities to monitor and enforce the application of these recommendations to Hawaladars and other alternative remittance providers.

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<sup>15</sup> The conference discussed Hawala as a global issue, and was not specific to Somalia.

<sup>16</sup> The conference participants adopted the Abu Dhabi Declaration on May 16, 2002.

<sup>17</sup> 8 special recommendations on terrorist financing are attached, appendix I.

3. Regulations should be effective but not overly restrictive.
4. The continued success in strengthening the international financial system and combating money laundering and terrorist financing requires the close support and unwavering commitment of the international community.
5. The international community should remain seized with the issue and should continue to work individually and collectively to regulate the Hawala and other alternative systems for legitimate commerce and to prevent their misuse by criminals and others.

Discussions with UAE central bank officials included agreement upon the need for collaboration between UNDP and the Central Bank of UAE to support and help facilitate the Somali remittance companies, given the difficult situation in Somalia.

## **10. Opportunities and Challenges Facing the Remittance Companies**

### *10.1 Opportunities*

Remittance companies have proven to be resilient; they operate all over the world in the face of adversity at home and rapidly changing environments abroad. They appear to be trustworthy, reliable, efficient and cost effective. Their customer service is viewed as second to none.

At the same time remittance companies are shouldering social responsibilities in their communities and country.<sup>18</sup> They create jobs, participate in funding conflict resolution and in many instances support social programs. The leadership of these companies takes seriously the role they play in sustaining the well being of their people. They take pride in the fact that their companies are the only functioning financial institutions in Somalia.

There are three major factors that have influenced the growth of remittance companies in Somalia; migration, telecommunications, and the emerging trade sector.

Firstly, as long as Somalia remains unstable more and more Somalis will continue to migrate to other parts of the world in search of a better life. The increase in migration and lack of other functioning financial institutions will continue to increase the opportunity for remittance companies to serve the financial needs of the Somali people both at home and abroad.

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<sup>18</sup> Remittance companies provide resources to the regional administrations and non-governmental organizations to support schools, health facilities and conflict resolution. This is mainly in the form of “Zakah” Islamic tax.

Secondly, financial services are an information intensive business. Developments in telecommunications continue to improve the speed, security, volume, and quality of financial information processing, and to lower the cost of transactions. This improvement in communications allows the remittance companies to provide their customers with real-time access to their cash, anywhere at anytime.

Thirdly, the emerging trade sector and ranks of small businesses and the self-employed also create new business opportunities for the remittance companies.

The impact of these changes on remittance companies and businesses will continue to drive the evolution of the remittance companies in the future.

A strong, efficient, and profitable remittance company is key to the survival of a significant portion of the Somali population and the economic vitality of the country. Remittance companies are a catalyst in every financial transaction; remitting funds, facilitating trade, pooling resources, financing investments, and acting as quasi-banks. These opportunities demand that a new way of doing business be developed. A way of doing business that can meet international standards for accountability and transparency and support the development of acceptable business and management standards.

## *10.2 Challenges*

Based upon research for this study, discussions with remittance companies and other concerned parties, it has become apparent that remittance companies have made progress in complying with host country rules and regulations. However more is required to meet international standards of organization and management. These challenges include the need to:

- Improve transparency and accountability;
- Improve compliance with host country laws, rules and regulations;
- Implementing pro-active plans to identify suspicious transactions and money laundering schemes;
- Design management structures to deal with crises;
- Develop risk management programs;
- Conduct regular and periodic audited annual reports.

Lack of attention to these issues in remittance operations contributes to the creation of a climate of suspicion and uncertainty. In the next part this report will suggest basic elements of management practices and processes that will address these issues.

## **11. The need for a Commercial Bank**

There has been a lot of discussion about the formation of a commercial bank(s) in Somalia. The history of the Somali banking system is one riddled with government interference, mismanagement, and corruption.

Prior to the civil war, Somalia had a government controlled financial sector that was composed of:

- The Central Bank of Somalia (CBS)
- Somali Savings and Commercial Bank (SSCB)
- Commercial Bank of Somalia (CBS)
- Somali Development Bank (SDB)
- Somali Insurance Company (SICOS)

By 1990 all these institutions were bankrupt due to corruption and mismanagement. The need to re-establish an internationally recognized bank is critical to the advancement of the well being of the Somali population and the reconstruction of the Somali economy. Banks provide services that are not currently provided by the remittance companies such as retail banking, corporate banking, and loans for commercial and social development. In addition, they can provide competitive services to Somalis who are remitting funds to Somalia.

However, Somalia does not have the legal framework, technical expertise, security, or strong central bank needed to regulate the establishment of any commercial banks. A careful, methodical process should be initiated in order to deal with some of these fundamental institutional, legal and human resource deficiencies.

## **12. The Way Forward: Bridging the Gap**

Remittance companies play an important role in alleviating poverty, maintaining household incomes, and expanding trade. The funds exchanged through remittances have a multiplier effect on the macro-economy. Therefore the way that this business is conducted must change in order to support the future development of Somalia.

It is in the best interests of the remittance companies and the concerned government entities to work together to provide both a design and framework for a more transparent and accountable financial sector in Somalia. As a result remittance companies will be able to conduct their business in a safer environment and the international community will be able to monitor any suspect activity. By meeting the standards of the host countries where they are based remittance companies will be able to conduct their business operations without disruption.

The next section of this report has two parts, first, exploring best practices in standards of business and management and second, strategies for awareness of money laundering schemes and possible terrorist financing.

### **12.1 Transparency, Accountability and 'Knowing Your Customer' (KYC)**

It is the responsibility of remittance companies to ensure that their operations comply with applicable laws and regulations. This demands that they establish systems and procedures to monitor their operations and practice acceptable business standards. Transparency, accountability and 'knowing your customer' are not only fundamental to sound management practices but are effective against financing terrorism and money-laundering schemes.

For these purposes transparency is defined as the flow of timely, useful and reliable information. Transparency is important because it enables openness, information sharing and access of information for the public and authorities, in turn improving accountability. In addition it reduces the scope for money laundering and financing terrorism.

Accountability is defined as responsibility for the results of the discharge of official duties including duties delegated to a subordinate unit or individual. It is the property that ensures that the actions of an individual or institution may be traced uniquely to that individual or institution. Therefore making remittance company leadership more accountable is crucial.

'Knowing your customer' is the process of positively identifying the customers that are conducting business with an organization. The organization must apply a process of due diligence in the identification of both personal and business customers for all types of transactions. This process includes obtaining adequate identification and taking reasonable steps to verify the identity, credentials and supporting information provided by customers.

Transparency, accountability and 'Knowing your customer', are management tools that are essential, to protect the public interest, to instill confidence in the concerned governments and to provide safeguards for the organization. Record keeping and documentation must be meticulous and accurate to avoid future misunderstandings, guard against criminal activities and prevent off-the-cuff decisions that lead to problems, conflicts, and damaged credibility. In addition record keeping is necessary to meet the requirements of transparency and accountability identified above.

## **12.2 Managing the organization**

Remittance companies should commit themselves to practice the basic principles of management. The following are minimal requirements that are best practice in the management of modern organizations:

- Establish an organizational structure that is transparent to everyone;
- Clear delineation of responsibilities at each level of the organization;
- Development of policies and procedures for the effective operation of the organization;
- Effective implementation of the policies and procedures of the organization and the establishment of evaluation mechanisms.
- Establishment of internal audit units to monitor compliance with the policies and procedures
- The keeping of adequate records of transactions including type, amount, and the identity of the customers (sender and recipient) for audit purposes.
- Develop effective 'Know Your Customer' information and provide employee training and seminars to familiarize staff with the information;
- Identify and report suspicious transaction activities to competent authorities and comply with instructions;
- Establish effective disclosure requirements for customers;
- Designate a 'compliance officer' at the management level;
- Provide ongoing training programs and training manuals for the employees;
- Issue annual financial statements prepared in accordance with generally accepted accounting standards;
- Obtain an external audit in accordance with generally accepted auditing standards;
- Develop a Risk Management Program.

## **13. Recommendations**

Consultations with remittance companies, local authorities in Somalia, certain concerned governments, and other interested parties indicated that an action plan to support and encourage remittance companies to bridge the gap between their current method of operations and what is required by concerned governments is warranted. In addition compliance with international financial regulations is paramount.

The proposed action plan should provide a framework within which remittance companies can meet these challenges.

### **13.1 Short Term Action Plan for Compliance (3-6 months)**

Identified goals for a short-term plan of action include but should not be limited to:

- Compliance with all relevant international financial rules and regulations;
- Compliance with host country laws, regulations and guidelines in remittance operations;
- Familiarity with the Financial Action Task Force (FATF) against money-laundering;<sup>19</sup>
- Development of sound Know Your Customer (KYC) procedures;
- Development of risk management programs;
- Conduction of processes with due diligence;
- Standardization of bookkeeping, auditing and reporting;
- Encouragement of remittance companies to organize a professional association to further their collective needs.

### **13.2 Immediate Recommendations:**

In order to best achieve the above short term goals the following is recommended:

#### *A Workshop to be held in Dubai, United Arab Emirates*

The participants must include remittance companies, representatives of the banking institutions and representatives of host governments, representatives of Somali administrations and concerned international organizations. The objective of the workshop would be to agree a way forward on the goals identified above.

#### *A Workshop to be held in Minneapolis, Minnesota, U.S.A.*

The participants must include remittance companies, representatives of banking institutions, U.S. regulatory agencies, and U.S. enforcement agencies. The purpose of the workshop should be to agree strategies for the achievement of the goals identified above.

#### *Objectives of the Workshops:*

- A minimum plan of action, agreed between stakeholders, addressing how the remittance companies should proceed in order to comply with the relevant legal and regulatory frameworks;
- Dissemination of the necessary information to remittance companies;

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<sup>19</sup> The FATF is an inter-governmental body, which develops and promotes policies, both nationally and internationally, to combat money laundering. It has 29 member countries and two regional organizations. It works in close cooperation with other international bodies involved in this area such as the United Nations Office of Drug Control and Crime Prevention, the Council of Europe, the Asia-Pacific Group on Money Laundering and the Caribbean Financial Action Task Force.

- Familiarization for the remittance companies with U.S. rules, regulations and concerns.
- Familiarization for the remittance companies with UAE standards.
- Familiarization of FATF recommendations on terrorist financing and money laundering;
- Discuss benefits of an association for remittance companies.

*A consultation by UNDP with Norway and possibly with other Nordic countries*

The consultations must include the Central Bank of Norway representatives, Ministry of finance and Ministry of Foreign Affairs, African Section.

*Objectives of the Consultation*

- To consult and discuss all possible avenues to support Somali remittance operations in Norway and other Nordic countries;
- To advocate for the introduction of legislation and other regulatory means to license Somali remittance companies to ensure the uninterrupted flow of remittance to Somali families.

**13.3 Medium/Long-term Support for the Establishment of a Commercial Bank in Somalia (12-18 months)**

The need for internationally regulated banking is critical to the reconstruction of the Somali economy and financial services. Banks provide services that are not currently delivered by the remittance companies. There are two steps in the action plan to realize the establishment of a commercial banking the private sector.

Firstly support and mobilize the business community both in Somalia and the Diaspora to address the following issues:

- The identification of stakeholders and potential composition of ownership;
- The capitalization of the bank;
- The mandate and mission of the bank;
- The identification of a corresponding bank;
- The envisioned management and staffing of such a bank.

Secondly provide the technical support and assistance that is necessary to the establishment of a commercial bank by supporting Somali regional authorities and strengthening the financial sector as follows:

- Supporting and encouraging private investors to establish a commercial bank;
- Strengthening central/banks to regulate commercial bank activities;
- Help develop the necessary legal framework and necessary adjudication process;

- Capacity building for administrative authorities to enforce rules and regulations;
- Assist the development of security plans for assets and personnel;
- Help assemble a trained workforce.

In addition a study must be undertaken to assess the capacity and the type of banking that would be appropriate for the unique conditions of Somalia. The study must develop the detailed strategy to be followed such as whether such a bank could be registered in Somalia or initially in another country such as Dubai or Djibouti.

A well-known international financial and banking institution in this region such as Bahrain Institute of Banking and Financial Services should be approached to provide the necessary technical assistance and capacity building of the Somali financial sector.

The above strategies should result in:

- Options as to how and where to establish a commercial bank;
- Proposals for the composition and ownership of the bank;
- Market analysis;
- A trained workforce for the banking sector;
- A legal and administrative framework for the banking sector.

#### **14. Role of UNDP and International Organizations**

To support the development of the Somali financial sector and to address the problems outlined above there is a potential role for international organizations and in particular UNDP to provide some of the following:

- Capacity building for the Somali financial sector;
- Training for Somali administrative and financial staff;
- Technical support for remittance companies and Somali banking institutions;
- Support for the development of a legal framework;
- Training for staff of central/banks and remittance companies and developing training manuals to meet new demands;
- Workshops, seminars and training for concerned remittance (hawala) companies;
- Help in the dissemination of information and education on the policies and procedures of host governments;
- Conduct a workshop in Dubai and possibly in the United States for stakeholders, i.e. banks, remittance companies, Somali administrations and host government authorities.

These recommendations for UNDP action are consistent with UNDP Somalia's stated mission of sustainable human development.

## **15. Conclusion**

The need for robust, healthy, and legitimate remittance operations is critical to the well being of the Somali population and to the strengthening of trade between Somalia and the rest of the world.

After the crisis of Al-Barakaat, remittance companies have improved their compliance with host government rules and regulations, especially in the United States and United Kingdom.<sup>20</sup> There are a number of remittance companies that are compliant with host country rules and regulations, while others are still lagging behind. However, remittance companies need further technical support and information in order to meet the new standards set by the host governments since the September 11 terrorist attacks. Consistent application of acceptable international standards of organization, management, accountability and transparency must be achieved.

UNDP and the international community's support are essential to achieve these goals. In line with UNDP's mission of poverty alleviation, capacity building for governance and economic recovery programs, the implementation of the recommended action plan is fundamental to achieving these objectives.

In the short term, realistic and simple actions steps are contained in this report that can be implemented at a low cost and provide a high return for all parties. The medium and long-term action plan is more involved and will take more resources and a longer time scale to be implemented.

Peace building, reconciliation, and demobilization will depend upon the survival of the Somali population and the vitality of the financial and economic sector which are all to a large extent dependent on the continued flow of remittance to Somalia.

The international community's support for the reform of the financial sector is very important. Immediate action is necessary to address both the short and the long-term problems confronting the Somali remittance sector.

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<sup>20</sup> There are two or three new remittance companies operating since this report was commenced.

## Appendix I

### **FATF Special Recommendations on Terrorist Financing**

Recognizing the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

#### *I. Ratification and implementation of UN instruments*

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing Terrorism.

Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

#### *II. Criminalizing the financing of terrorism and associated money laundering*

Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.

#### *III. Freezing and confiscating terrorist assets*

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations.

#### *IV. Reporting suspicious transactions related to terrorism*

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.

#### *V. International co-operation*

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information

exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organizations, and should have procedures in place to extradite, where possible, such individuals.

#### *VI. Alternative remittance*

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

#### *VII. Wire transfers*

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

*Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not complete originator information (name, address and account number).*

#### *VIII. Non-profit organizations*

Countries should review the adequacy of laws regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organizations are particularly vulnerable, and countries should ensure that they cannot be misused.

- (i) by terrorist organizations posing as legitimate entities;
- (ii) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and
- (iii) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

## Appendix II

# Financial Action Task Force on Money Laundering

## The Forty Recommendations

### *Introduction*

The Financial Action Tasks Force on Money Laundering (FATF) is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering – the processing of criminal proceeds in order to disguise their illegal origin. These policies aim to prevent such proceeds from being utilized in future criminal activities and from affecting legitimate economic activities.

The FATF currently consists of 29 countries<sup>21</sup> and two international organizations.<sup>22</sup> Its membership includes the major financial centre countries of Europe, North and South America and Asia. It is a multi-disciplinary body – as is essential in dealing with money laundering – bringing together the policy-making power of legal, financial and law enforcement experts.

This need to cover all relevant aspects of the fight against money laundering is reflected in the scope of the forty FATF Recommendations – the measures which the Task Force have agreed to implement and which all countries are encouraged to adopt. The Recommendations were originally drawn up in 1990. In 1996 the forty Recommendations were revised to take into account the experience gained over the last six years and to reflect the changes, which have occurred in the money-laundering problem.<sup>23</sup>

These forty Recommendations set out the basic framework for anti-money laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement; the financial system and its regulations, and international co-operation.

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<sup>21</sup> Reference in this document to ‘countries’ should be taken to apply equally to ‘territories’ or ‘jurisdiction’. The twenty-nine FAFT member countries and governments are: Argentina, Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong; China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; Turkey; the Untied Kingdom; and the United States.

<sup>22</sup> The international organizations are: the EC and the Gulf Cooperation Conch.

<sup>23</sup> During the period 1990 to 1995, the FATF adopted a new Interpretative Note relating to recommendations 15 on 2 July 1999.

It was recognized from the outset of the FATF that countries have diverse legal and financial systems and so all cannot take identical measures. The Recommendations are therefore the principles for action in this field, for countries to implement according to their particular circumstances and constitutional framework allowing countries measure if flexibility rather than prescribing every detail. The measures are not particularly complex or difficult, provided there is the political will react. Nor do they compromise the freedom to engage in legitimate transactions or threaten economic development.

FATF countries are clearly committed to accept the discipline of begin subjected to multilateral surveillance and peer review. All member countries have their implementation of the forty Recommendations monitored through a two-pronged approach; an annual self-assessment exercise and the more detailed mutual evaluation process under which each member country is subject to an on-site examination. In addition, the FATF carries out cross-country reviews of measures taken to implement particular Recommendations.

These measures are essential for the creation of an effective anti-money laundering framework.

## **THE FORTY RECOMMENDATIONS**

### **A. GENERAL FRAMEWORK OF THE RECOMMENDATIONS**

1. Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).
2. Financial Institutions secrecy laws should be conceived so as not to inhibit implementation of these recommendations.
3. An effective money laundering enforcement program should include increased multilateral cooperation and money laundering cases, where possible.

### **B. ROLE OF NATIONAL LEGAL SYSTEMS IN COMBATING MONEY LAUNDERING**

#### *Scope of the Criminal Offence of Money Laundering*

4. Each country should take such measures as may as necessary ones, to enable it to criminalize money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine

which serious crimes would be designated as money laundering predicate offences.

5. As provided in the Vienna Convention, the offences of money laundering should apply at least to knowing money-laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.
6. Where possible, corporations themselves – not only their employees – should be subject to criminal liability.

#### *Provisional Measures and Confiscation*

7. Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered proceeds from, instrumentalities used in or intended for use in the commission of any money laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

Such measures should include the authority to: (1) identify, trace, and evaluate property which is subject to confiscation; (2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and (3) take any appropriate investigative measures.

In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where parties know or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g. through confiscation or collection of fines and penalties.

### **C. ROLE OF THE FINANCIAL SYSTEM IN COMBATING MONEY LAUNDERING**

8. Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.
9. The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by business or professions, which are not financial institutions, where such conduct is allowed or not prohibited. Financial

activities include, but are not limited to, those listed in the attached annex. It is left to each country to decide whether special situation should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

### *Customer identification and Record-keeping Rules*

10. Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening or accounts or passbooks, entering into fiduciary transactions, renting or safe deposit boxes, performing large cash transactions).

In order to fulfill identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

- (i) to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.
- (ii) to verify that any person purporting to act on behalf of the customer is so authorized and identify that person.

11. Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc., that do not conduct any commercial or manufacturing business or any form of commercial operation in the country where their registered office is located.)

12. Financial institutions should maintain for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

Financial institutions should keep records on customer identification (e.g. copies of records of official identification documents like passports, identify cards,

driving license or similar documents), account files and business correspondence for at least five years after the account is closed. These documents should be available to domestic authorities in the context of relevant criminal prosecutions and investigations.

13. Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favor anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

#### *Increased Diligence of Financial Institutions*

14. Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

15. If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

16. Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restrictions on disclosure or information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal actually occurred.

17. Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

18. Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

19. Financial institutions should develop programs against money laundering. These programs should include, as a minimum:
  - i. the development of internal policies, procedures and controls, including the designation of compliance's officers at management level, and adequate screening procedures to ensure high standards when hiring employees;
  - ii. an ongoing employee training Programme;
  - iii. an audit function to test the system.

## Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures

20. Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries, which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation; competent authorities in the country of the mother institution should be informed by the financial institutions that they cannot apply these Recommendations.
21. Financial Institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries, which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

### *Other Measures to Avoid Money Laundering*

22. Countries should consider implementing feasible measures to detect or monitor the physical cross border transportation of cash and bearer negotiable instruments, subject safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.
23. Countries should consider the feasibility and utility of system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount to a national central agency with a computerized data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.
24. Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacements of cash transfer.
25. Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

### *Implementation, and Role of Regulatory and other Administrative Authorities*

26. The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.
27. Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.
28. The competent authorities should establish guidelines, which will assist financial institutions in detecting suspicious patterns of behavior by their customers. It is understood that such guidelines must develop over time and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial personnel.
29. The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

## D. STRENGTHENING OF INTERNATIONAL CO-OPERATION

### Administrative Co-operation

#### *Exchange of general information*

30. National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.
31. International competent authorities, perhaps Interpol and the World Customs Organizations, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

*Exchange of Information relating to suspicious transactions*

32. Each country should make efforts to improve a spontaneous or 'upon request' international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

Other forms of Co-operation

*Basis and means for co-operation in confiscation, mutual assistance and extradition*

33. Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions – i.e. different standards concerning the intentional element of the infraction – do not affect the ability or willingness of countries to provide each other with mutual legal assistance.
34. International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.
35. Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from crime.

*Focus of improved mutual assistance on money laundering issues*

36. Co-operative investigations among countries' appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.
37. There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.
38. There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money

laundering or the crimes underlying the laundering activity. There should also be arrangements for co-coordinating seizure and confiscation proceedings, which may include the sharing of confiscated assets.

39. To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for co-coordinating seizure and confiscation proceedings, which may include the sharing of confiscated assets.
40. Countries should have procedures in place to extradite, where possible, individuals charged with money laundering offence or related offences. With respect to its national legal system, each country should recognize money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgments, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

#### **Annex to Recommendations 9: List of Financial Activities undertaken by business or professions which are not financial institutions**

1. Acceptance of deposits and other repayable funds from the public.
2. Lending.\*
3. Financial leasing.
4. Money transmission services.
5. Issuing and managing means of payment (e.g. credit and debit cards, checks, travelers checks and bankers' draft....).
6. Financial guarantees and commitments.
7. Trading for account of customers (spot, forward, swaps, futures, options...) in:
  - (a) money market instruments (checks, bills, CDs. Etc.);
  - (b) foreign exchange;
  - (c) exchange, interest rate and index instruments;
  - (d) transferable securities;
  - (e) Commodity futures trading.
8. Participation in securities issues and the provision of financial services related to such issues.
9. Individual and collective portfolio management.
10. Safekeeping and administration of cash or liquid securities on behalf of clients.
11. Life insurance and other investment related insurance.

## 12. Money changing

\*Including inter alia:

-consumer credit,

-mortgage credit,

-factoring, with or without recourse, -finance of commercial transactions (including forfeiting).

# INTERPRETATIVE NOTES TO THE FORTY RECOMMENDATIONS

During the period 1990 to 1995, the FATF elaborated various Interpretative Notes, which are designed to clarify the application of specific Recommendations. Some of these Interpretative Notes have been updated in the Stocktaking Review to reflect changes in the Recommendations. The FATF adopted a new Interpretative Note relating to Recommendation 15 on 2 July 1999.

## INTERPRETATIVE NOTES

### *Recommendations 4*

Countries should consider introducing an offence of money laundering based on all serious offences and/or on all offences that generate a significant amount of proceeds.

### *Recommendations 8*

The FATF Recommendations should be applied in particular to life insurance and other investment products offered by insurance companies, whereas Recommendation 29 applies to the whole of the insurance sector.

## **Recommendations 8 and 9 (Bureaux de Change)**

### *Introduction*

Bureaux de Change are an important link in the money laundering chain since it is difficult to trace the origin of the money once it has been exchanged. Typologies exercise conducted by the FATF have indicated increasing use of bureaux de change in laundering operations. Hence it is important that there should be effective counter-measures in this area. This Interpretative Note clarifies the application of FATF Recommendations concerning the financial sector in relation to bureaux de change, where appropriate, sets out options for their implementation.

### *Definition of Bureaux de Change*

For the purpose of this Note, bureaux de change are defined as institutions, which carry out retail foreign exchange operations (in cash, by cheque or credit card). Money changing operations which are conducted only as an ancillary to the main activity of a business have already been covered in Recommendation 9. Such operations are therefore excluded from the scope of this Note.

### *Necessary Counter-Measure Applicable to Bureaux de Change*

To counter the use of bureaux de change for money laundering purposes, the relevant authorities should take measures to know the existence of all natural and legal persons who, in a professional capacity, perform foreign exchange transactions.

As a minimum requirement, FATF members should have an effective system whereby the bureaux de change are known or declared to the relevant authorities (whether regulatory or law enforcement). One method by which this could be achieved would be a requirement on bureaux de change to submit to a designated authority, a simple declaration containing adequate information on the institution itself and its management. The authority could either issue a receipt or give a tacit authorization: failure to voice an objection being considered as approval.

FATF members could also consider the introduction of a formal authorization procedure. Those wishing to establish bureaux de change would have to submit an application to a designated authority empowered to grant authorization on a case-by-case basis. The request for authorization would need to contain such information as laid down by the authorities but should at least provide details of the applicant institution and its management. Authorization would be granted, subject to the bureau de change meeting the specified conditions relating to its management and the shareholders, including the application of a 'fit and proper test'.

Another option which could be considered would be a combination of declaration and authorization procedures. Bureau de change would have to notify their existence to a designated authority but would not need to be authorised before they could start business. It would be open to the authority to apply a 'fit and propre' test to the management of bureau de change after the bureau had commenced its activity, and to prohibit the bureau de change from continuing its business, if appropriate.

Where bureau are required to submit a declaration of activity or an application for registration, the designated authority (which could be either a public body or a self-regulatory organization) could be empowered to publish the list of registered bureau de change. As a minimum, it should maintain a (computerized file of

bureau de change. There should also be powers to take action against bureau de change conducting business without having made a declaration of activity or having been registered.

As envisaged under FATF Recommendations 8 and 9, bureau de change should be subject to the same anti-money laundering regulations as any other financial institution. The FATF Recommendations on financial matter should therefore be applied to bureau de change. Of particular importance are those on identification requirements, suspicious transactions reporting, due diligence and record keeping.

To ensure effective implementation anti-money laundering requirements by bureau de change, compliance monitoring mechanisms should be established and maintained. Where there is a registration authority for bureau de change or a body, which receives declarations of activity by bureau de change, it could carry out this function. But the monitoring could also be done by other designated authorities (whether directly or through the agency of third parties such as private audit firms). Appropriate steps would need to be taken against bureau de change which failed to comply with anti-laundrying requirements.

The bureau de change sector tends to be an unstructured one without (unlike banks) national representative bodies which can act as a channel of communication with the authorities. Hence it is important that FATF members should establish effective means to ensure that bureau de change are aware of their anti-money laundering responsibilities and to relay information, such as guidelines on suspicious transactions, to the profession. In this respect it would be useful to encourage the development of professional associations.

### **Recommendations 11, 15 through 18**

Whenever it is necessary in order to know the true identity of the customer and to ensure that legal entities cannot be used by natural persons as a method of operating in reality anonymous accounts, financial institutions should, if the information is not otherwise available through public registers or other reliable sources, request information – and update that information – from the customer concerning principal owners and beneficiaries. If the customer does not have such information, the financial institutions should request information from the customer on whoever has actual control.

If adequate information is not obtainable, financial institutions should give special attention to business relations and transactions with the customer.

If, based on information supplied from the customer or from other sources, the financial institution has reason to believe that the customer's account is being utilised in money laundering transactions, the financial institution must comply with the relevant legislation, regulations, directives or agreements concerning

reporting of suspicious transactions or termination of business with such customers.

### **Recommendation 11**

A bank or other financial institution should know the identity of its own customers, even if these are represented by lawyers, in order to detect and prevent suspicious transactions as well as to enable it to comply swiftly to information or seizure requests by the competent authorities. Accordingly Recommendation 11 also applies to the situation where an attorney is acting as an intermediary for financial services.

### **Recommendation 14**

- (a) In the interpretation of this requirement, special attention is required not only to transactions between financial institutions and their clients, but also to transactions and/or shipments especially of currency and equivalent instruments between financial institutions themselves or even to transactions within financial groups. As the wording of Recommendation 14 suggests that indeed “all” transactions are covered, it must be read to incorporate these inter bank transactions.
- (b) The word “transactions” should be understood to refer to the insurance product itself, the premium payment and the benefits.

### **Recommendation 15<sup>24</sup>**

In implementing Recommendation 15, suspicious transactions should be reported by financial institutions regardless of whether they are also thought to involve tax matters. Countries should take into account that, in order to deter financial institutions from reporting a suspicious transaction, money launderers may seek to state inter alia that their transactions relate to tax matters.

### **Recommendation 22**

- (a) To facilitate detection and monitoring of cash transactions, without impeding in any way freedom of capital movements, members could consider the feasibility of subjecting all cross-border transfers, above a given threshold, to verification, administrative monitoring, declaration or record keeping requirements.
- (b) If a country discovers an unusual international shipment of currency, monetary instruments, precious metals, or gems, etc. It should consider notifying, as appropriate, the Customs Service or other competent authorities of the countries from which the shipment originated and /or to which it is destined, and should co-operate with a view toward establishing

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<sup>24</sup> The FATF adopted this interpretative Note on 2 July 1999.

the source, destination, and purpose of such shipment and toward the taking of appropriate action.

### **Recommendation 26**

In respect of this requirement, it should be noted that it would be useful to actively detect money laundering if the competent authorities make relevant statistical information available to the investigative authorities especially if this information contains specific indicators of money laundering activity. For instance, if the competent authorities' statistics show an imbalance between the development of the financial services industry in a certain geographical area within a country and the development of the local economy, this imbalance might be indicative of money laundering activity in the region. Another example would be manifest changes in domestic currency flows without an apparent legitimate economic cause. However, prudent analysis of these statistical data is warranted, especially as there is not necessarily a direct relationship between financial flows and economic activity (e.g. The financial flows in an international financial center with a high proportion of investment services provided for foreign customers or a large interbank market not linked with local economic activity).

### **Recommendation 29**

Recommendation 29 should not be read as to require the introduction of a system of regular review of licensing of controlling interests in financial institutions merely for anti-money laundering purposes, but as to stress the desirability of suitability review for controlling shareholders in financial institutions (banks and non-banks in particular) from a FATF point of view. Hence, where shareholder suitability (or 'fit and proper') tests exist, the attention of supervisors should be drawn to their relevance for anti-money laundering purposes.

### **Recommendation 33**

Subject to principles of domestic law, countries should endeavor to ensure that differences in the national definitions of the money laundering offences e.g. Different standards concerning the intentional element of the infraction, differences in the predicate offences, differences with regard to charging the perpetrator of the underlying offence with money laundering—do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

### **Recommendation 36 (Controlled delivery)**

The controlled delivery of funds known or suspected to be the proceeds of crime is a valid and effective law enforcement technique for obtaining information and evidence in particular on international money laundering operations. In certain countries, controlled delivery techniques may also include the monitoring of

funds. It can be of great value in pursuing particular criminal investigations and can also help in obtaining more general intelligence on money laundering therefore be taken so that no obstacles exist in legal systems preventing the use of controlled delivery techniques, subject to any legal requisites, including judicial authorization for the conduct of such operations. The FATF welcomes and supports the undertakings by the World Customs Organization and Interpol to encourage their members to take all appropriate steps to further the use of these techniques.

### **Recommendation 38**

- (a) Each country shall consider, when possible, establishing an asset forfeiture fund in its respective country into which all or a portion of confiscated property will be deposited for law enforcement, health, education, or other appropriate purposes.
- (b) Each country should consider, when possible, taking such measures as may be necessary to enable it to share among or between other countries confiscated property, in particular, when confiscation is directly or indirectly a result of co-coordinated law enforcement actions.

### **Deferred Arrest and Seizure**

Countries should consider taking measures, including legislative ones, at the national level, to allow their competent authorities investigating money laundering cases to postpone or waive the arrest of suspected persons and /or the seizure or the money for the purpose of identifying persons involved in such activities or for evidence gathering. Without such measures the use of procedures such as controlled deliveries and undercover operations are precluded.

## Appendix III

The information in this appendix is modified and excerpted from the Basel Committee on Banking Supervision.<sup>25</sup> It is intended to familiarize remittance companies with the types of risks that are inherent in financial institutions.

### **Risk Management**

The absence of policies and procedures can subject to a remittance company to serious and counter-offensive risks, in the area of reputation, operational and legal risks. Any one of them can cause a significant financial lost as well as the need to divert considerable management time and energy to resolving problems that arise.

*Reputational risk* can be defined as the potential that adverse publicity regarding a remittance company business practices and associations, whether true or not will cause a loss of confidence in the integrity of the institution. reputational risk poses a major threat to a remittance company, since the nature of their operations is based on the confidence of the customer. Remittance companies are susceptible to reputational risk, since they can become victim of illegal activities perpetrated by their customers. They need to protect themselves through effective implementation of their policies and procedures.

*Operational risk* is defined as the risk of direct or indirect loss that is caused by failed internal controls. People, processes, and systems or external events can cause operational risk. Most operational risk is lack of implementation of policies, procedures, internal controls and neglectful of due diligence by the institution. A public perception that a remittance company is lenient on its operational risk spells adverse impact on the business. Remittance Company's internal audit and compliance functions have important responsibilities in evaluating and ensuring adherence to policies and procedures.

*Legal risk* is the threat of law suites, suspension of licenses and adverse judgments that adversely impact the operations of the company. Remittance companies might be subject to government actions for failure to observe regulations, lack of compliance with internal policies and procedures and ignoring to conduct due diligence. Consequently, remittance companies can, for example, their operations suspended, criminal liabilities and fines imposed by host governments. Remittance companies will be unable to protect themselves if they do not able to practice due diligence in identifying their customers and understanding their business.

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<sup>25</sup> For more information see, Basel Committee on Banking Supervision "Customer due diligence for banks October 2001" Bank for International Settlement.

## ATTACHMENTS

The following information are intended to be a starting point for all Somali remittance companies conducting businesses or planning to conduct business in the selected countries, such as USA, UK, UAE and the Northwest Somalia/Somaliland administration. It is not exhaustive list of all the requirements, rules and regulations of these entities. In the United States, remittance businesses or prospective remittance businesses must also meet all requirements of a given state where they either conduct business or plan to conduct their business.

### Attachment I

United States: (For further information, please visit [www.msb.gov](http://www.msb.gov) or call 1-800-800-2877)

### **MONEY SERVICES BUSINESS REGISTRATION FACT SHEET**

The Bank Secrecy Act (BSA) requires certain money services businesses (MSBs) to register with the Financial Crimes Enforcement Network (FinCEN), of the U.S. Department of the Treasury, **by December 31, 2001**. These businesses are also required to prepare and maintain a list of agents. This fact sheet is designed to provide the information you need to know in order to comply with the MSB registration requirement.

#### **MSB Registration Requirement**

A business that meets the definition of an MSB because it provides one or more of the following products or services must register (except as noted below):

- Money orders
- Traveler's checks
- Money transmission
- Check cashing
- Currency dealing or exchange

**Solely an Agent.** A business that is an MSB **solely** because it serves as an agent of another MSB is not required to register. However, a business that is an MSB because it engages in MSB activities (above) both on its own behalf and as an agent of another MSB must register.

**Example:** A supermarket corporation that acts as an agent (as a seller of money orders) for an issuer of money orders, and performs no other services of a nature and amount that would cause the supermarket corporation to be an MSB is not required to register. This is true even if the supermarket corporation serves as an agent for two or more MSBs.

However, the supermarket corporation will have to register if in addition to acting as an agent of the money order issuer, it provides check cashing or currency exchange services (other than as an agent for another MSN) in an amount greater than \$1,000 for any person on any day in one or more transactions.

**Stored Value.** A business that is an MSB solely as an issuer, seller or redeemer of stored value is not required to register. If however, a business is an MSB because of other services it provides (above), providing stored value services does not relieve it of the responsibility to register.

**Other.** The U.S. Postal Service and agencies of the United States, of any State, or of any political subdivision of any State, are not required to register.

### **Filing Instructions**

MSBs must be registered by using form TD F 90-22.55 Registration of Money Services Business. Registration is the responsibility of the owner or controlling person of the MSB. The owner or controlling person must sign and use the complete form. Instructions for completion and filing accompany the form.

### **Agent Lists.**

An MSB that is required to register and has agents must prepare and maintain a list of its agents. That list must be updated annually. Generally, the list must include:

- **Name:** The name of the agent, including any trade names or doing-business-as names.
- **Address:** The address of the agent, including street address, city, state, and ZIP code.
- **Telephone Number:** The telephone number of the agent.
- **Gross Transaction Amount:** A listing of the individual months in the 12 months immediately preceding the date of the agent list in which the agent's gross transaction amount for financial products or services issued by the MSB maintaining the list.
- **Year Became Agent:** The year in which the agent first became an agent of the MSB
- **Branches:** The number of branches and sub-agents the agent has, if any.

### **Supporting Documentation**

Supporting documentation, including a copy of the filed form, an estimate of business volume, information regarding ownership or control, and the agent list must be retained by the MSB for a period of five years.

## **Definition of an MSB**

The term “money services business” (MSB) includes any person doing business, whether or not on a regular basis or as an organized business concern, in one or more of the following capacities;

- Check casher
- Currency dealing or exchange
- Issuer of traveler’s checks, money orders or stored value
- Money transmitter
- U.S Postal Service

To meet the definition of an MSB, a person must conduct more than \$1,000 in business with one person in one or more transactions (in one category of activity listed above) on any day. A business is an MSB for each activity for which it meets this threshold. However, there is one exception. No activity threshold applies to the definition of money transmitter. A person that engages as a business in the transfer of funds is a money transmitter and an MSB, regardless of the amount of transfer activity.

## **Role of Internal Revenue Service’s Detroit Computing Center**

BSA reporting forms, including MSB registration forms, are filed with Internal Revenue Service Detroit Computing Center (IRS DCC or DCC). The DCC processes BSA forms and data on behalf of FinCEN.

## Attachment II

United Kingdom: (For further information, please visit [www.hmce.gov.uk/business/othertaxes/money-serv-bus.htm](http://www.hmce.gov.uk/business/othertaxes/money-serv-bus.htm))

### SERVICES BUSINESSES

#### HM Customs and Excise

#### CONTENTS

1. Do I need to be registered?
  2. What are MSB activities?
  3. Are there any exemptions from registration?
  4. I am an agency. Do I have to register?
  5. I am a franchisee. Do I have to register?
  6. How do I register?
  7. When do I need to register?
  8. How much is the fee?
  9. What if I become a Money Service Business after 01.06.02
  10. What happens after your application form is received
- Where you can get help

#### 1. Do I need to be registered?

Anyone engaging in Money Service Business (MSB) activity must be registered, unless you qualify for exemption. See Question 3 below.

#### 2. What are MSB activities?

- Operation of bureau de change
- Transmitting money, or any representation of monetary value by any means/this type of business is commonly referred to as Money transmission;
- Cashing third party cheques (that is cashing cheques from someone else made payable to your customer, for instance from an employer).

#### 3. Are there any exemptions from registration?

Yes. You do not have to register as an MSB with Customs if you are:

- Already regulated by the Financial services Authority;
- Transmitting money as part of a wider service (e.g. a solicitor transmitting money as part of conveying;
- Cashing customers' personal cheques.

#### 4. I am an agency. Do I have to register?

No. Your principal will register for you and pay your fee.

### **5.I am a franchisee. Do I have to register?**

Yes. You need to register and pay the fee yourself. You will also need to tell us on the MSB1 who your franchiser is.

### **6.How do I register?**

You must complete one Money Service Business form (MSB1) for each legal entity. The form can be obtained from the National Advice Service on 0845 010 900 or from our website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

You must give details of all of your premises and each of your agents. If you have more than one set of premises, you will need to complete continuation form MSB4. Similarly, if you have more than one agent, you will need to complete continuation form MSB5. Do not count agents as separate legal entities.

Once the form has been completed you should use the official reply envelope and send your form and any supplementary forms with your fee to HM Customs and Excise, Alexander House, 21 Victoria Street, Southend-on-Sea, Essex, SS99 1AG.

### **7. When do I need to register?**

The effective date of registration for all Money Service Businesses is 01.06.02.

### **8. How much is the fee?**

100 sterling pounds for every set of premises and each agent.

### **9. What if I become a Money Service Business after 01.06.02**

If you become a MSB after 01.06.02 you must immediately notify us of your liability to register. We will then register you.

### **10.What happens after your application form is received**

Once an application form has been received it will be processed within 45 days of receipt.

We will then send you a certificate giving your registration number and the date when you need to send in your next annual fee.

We will return your form to you if:

- You have not signed the form;
- You have not completed the form correctly or have not completed any supplementary forms that are necessary
- Have not sent in the fee or sent in an incorrect fee;

If anything else is missing and we will ask that you complete your registration again.

### **11.Where you can get help**

You can get advice or ask for education material by telephoning our National Advice service on 084 010 9000.

You can request an education visit by writing to your local Excise office. Their address and telephone number are in the Phone Boon under Government Offices.

### Attachment III

United Arab Emirates: (Source: Central Bank of UAE; Also visit [www.uaecb.gov.ae](http://www.uaecb.gov.ae))

RESOLUTION NO. 123/7/92  
Regarding Regulating of Money Changing Business in the U.A.E.

The Chairman,

Having perused the provisions of Federal Law No. (10) 1980 concerning the Central Bank, the Monetary system and Organization of Banking;

And Resolution No. 31/2/1986 regarding regulating of the money changing business in the U.A.E;

And in accordance with the Board of Directors' Resolution at its meeting held on 14/11/1992;

Resolved as follows:

#### ARTICLE 1 DEFINITIONS

1.1 For the purpose of this Resolution:-

- a) "Licensed person" means any natural or juridical person authorized to conduct money changing business under this Resolution.
- b) "Licence" means licence issued by the Central Bank for the carrying of exchange business.
- c) "Money changing business" means the purchase and sale of foreign currencies in the form of banknotes and coins, the purchase and sale of travelers cheques, the handling of remittance business in both the local and foreign currencies and other matters approved by the Central Bank.
- d) "Exempted person" means any entity to which the definition of commercial bank in federal law No. (10) of 1980 is applicable and which is licensed by the Central Bank under said Law.
- e) "Juridical person" means an established entity in accordance with and recognized by the Federal Laws of the United Arab Emirates and the laws of the Emirate in which it is so incorporated or an entity established in and recognized under the laws of another jurisdiction.

- 1.2 The terms defined in Federal Law No. (10) of 1980 shall, unless otherwise defined herein, bear the same meanings when used herein.

## ARTICLE 2 LICENCE REQUIREMENT

No person, whether natural or juridical, shall carry on money changing business in the United Arab Emirates unless he is licensed in writing by the Governor of the Central Bank to do so in accordance with this Resolution or unless he is exempted from the provisions thereof.

## ARTICLE 3 APPLICATION FOR LICENCE

Any natural or juridical person may submit an application for a licence to the Central Bank. Such application shall be made in the form prescribed from time to time by the Central Bank and shall be accompanied by the following documents:-

A) A statement setting out the nature and scale of money changing Business which the applicant intends to carry on any plans of the applicant for the future development of that business and the particulars of the applicant arrangements for the management of that business.

B) Name of applicant and his address, a brief statement about applicant and copy of his passport and in the case of U.A.E nationals a copy of the U.A.E identity card.

C) An undertaking to provide, incase the application is approved, a bank guarantee drawn in favour of the Central Bank equal to 50% of the capital of the applicant.

D) An undertaking to comply with the provisions of Federal Law No. 10 of 1980 regarding money changing business and all resolutions, instructions, directives, circulars, other communications issued by the Central Bank in relation thereto and an undertaking to subject his records and documents to the examination, audit and supervision f the Central Bank.

## ARTICLE 4 CONDITIONS FOR GRANTING OF LICENCE

4.1 The CB may, after studying an application duly made in accordance with this Resolution and after being provided with all such information, documents and reports as may be required, grant or refuse to grant the license.

4.2 A Licence shall not be granted unless the following criteria are fulfilled with respect to the application:-

- a) Paid-up capital of the applicant is not less than DH. 1,000,000 (Dirhams one million) if the application is in respect of the purchase and sale of foreign currencies in the form of banknotes and coins, the purchase and sale of travelers cheques, and other matters approved by the CB, and not less than DH 2,000,000 (Dirhams two million) if the application includes conduct of money changing business as defined in this Resolution including handling of remittance business of both local and foreign currencies; the opening of each additional branch would require an increase in the paid-up capital by 10%
  - b) The application is a U.A.E national of not less than 21 years of age who is of sound mind and in case of applications made by companies the share of U.A.E nationals in the capital shall not be less than 60% of the total paid up capital.
  - c) That no commercial bank should manage the licensed person whether such a bank is local or foreign;
- 4.3 No licence shall be granted unless the applicant disposes of the necessary personal reliability and professional qualifications as determined by the CB as follows;
- a) Personal reliability;  

The applicant or any of the founding members, shall be of good conduct and behavior and shall not have been convicted for any offence involving dishonor or dishonesty or violence, and shall not have failed to honor his liabilities towards banks or other creditors and shall not have been declared bankrupt or reached a settlement with his creditors nor has been subjected to attachment of his assets or put under judicial receivership.
  - b) Professional qualifications;  

The applicant or the person who is or shall be manager or controller of the applicant shall have the appropriate theoretical knowledge of money changing business and the necessary management experience.
- 4.4 In approving or rejecting an application for a licence made by any company consideration shall be given to any matters relating to another company within the same group of companies as the applicant or regarding any manager or controller thereof as concerns personal reliability or professional qualifications.

## ARTICLE 5 NOTICE OF GRANT OF LICENCE OR REFUSAL OF APPLICATION

Where the CB grants a licence or rejects an application for a licence, it shall give written notice to the applicant accompanied by reasons in case of rejection.

## ARTICLE 6 SCOPE OF LICENCE

In a licence issued by the CB the following shall be observed:

- a) It shall be granted for a period of one year, renewable thereafter, and
- b) It may contain such conditions as the CB may deem appropriate.

## ARTICLE 7 REVOCATION, RESTRICTION AND VARIATION OF LICENCE

7.1 The CB by a resolution of its Board shall have the right at any time to revoke, vary, restrict or withdraw an condition imposed on any licence after obtaining the comments of the licensed person on the reasons calling for such revocation, variation, restriction or withdrawal.

7.2 The CB by a resolution of its Board shall have the right to revoke the licence if:

- a) It appears to the CB that there has been a breach of any of the continuing obligations referred to in Article 8 herein below, or if any condition of the licence is not complied with; or
- b) The licensed person is in breach of this Resolution or Federal Law No. (10) of 1980 or any instructions or circulars issued by the CB or if any of the conditions of licence is not fulfilled or is incapable of fulfillment; or
- c) The CB has been provided with false, misleading or inaccurate information by or on behalf of the licensed person or any director, controller or manager of it; or
- d) The interests of customers or potential customers of the licensed person are in any other way threatened, whether by the manner in which the licensed person is conducting or intends to conduct its affairs or for any other reason; or
- e) An order for the liquidation of the business of the licensed person or any of its major shareholders has been made by a competent judicial authority; or
- f) A judicial receiver or manager or any similar officer of the licensed person's undertaking has been appointed; or
- g) A bankruptcy order or judgment has been made in respect of the licensed person; or
- h) The licensed person did not commence its exchange business within six months from the date of licence; or

- i) The licensed person suspends its activities for a period of three consecutive months; or
- j) The licensed person, in the opinion of the CB, is unable to pay its debts as they fall due or the value of its assets is in the opinion of the CB less than the amount of its liabilities; or
- k) Execution or other process is issued on a judgment decree or order to sell his assets or part thereof by any court and is returned unsatisfied in whole or in part or exceeds DH 1,000,000 (Dirham One million); or
- l) The relevant local authorities withdraw any licence issued in favor of the licensed person.

## ARTICLE 8 CONTINUING OBLIGATIONS

8.1 The licensed person shall fully abide by the following obligations:-

- a) That the total of his assets shall not at any time, exceed ten times the paid up capital and the capital shall not at any time be less than the limits approved in accordance with Article (4) (2) (a);
- b) That the management of the licensed person be conducted by such persons as have been previously approved by the CB;
- c) That the licensed person's legal status, its ownership and capital shall not be altered without the prior written approval of the CB;
- d) That the licensed person shall not merge or amalgamate or enter into a joint venture with any person or entity, without the prior written approval of the CB;
- e) That money changing business shall only be conducted from such premises as are previously approved by the CB, and no other non-money changing activity of whatever nature is undertaken in the same premises and that such premises shall not be relocated without the approval of the CB.
- f) That the trade name for the licensed person shall not include the word "Bank" "Financial Institution", "investment/Commercial/Real Estate Company" or any other description that indicates activities other than money changing business;
- g) That branches of the licensed person shall not be established without the prior written consent of the CB and no permission for a new branch shall be granted unless the financial conditions of the licensed person are sound and the licensed person is not in breach of an condition;
- h) That the licensed person appoints such licensed auditor as is acceptable to the CB and maintains proper accounting records and submits these in such form as required by the CB;
- i) That dealings between the licensed person and his customers shall be supported by official receipts for all money changing transactions and that a notice advising customers of the necessity

for obtaining receipts regarding all sales or purchases of foreign currencies or travelers cheques or remittances conducted through the licensed person, and that another notice declaring rates applicable to currency sales and purchases must be prominently displayed at the premises of the licensed person;

- j) That a licensed person authorized to issue drafts shall issue them in its own name and drafts must be signed by duly authorized signatories;
- k) That the licensed person shall not encumber any of its assets without the prior written approval of the CB;
- l) That any partner of the licensed person shall not withdraw any amount from the business in excess of his share of the net annual profit;
- m) That shareholders, partners, directors, managers, or controllers of the licensed person and they may not borrow from or lend to the licensed person and they may not have accounts with the licensed person;
- n) That the licensed person shall submit to the CB within a period not exceeding three months from the date of closing of its financial year, a signed copy of its year end audited accounts, including the auditors report thereon; the financial year of a licensed person must begin on 1 January and end on 31 December;
- o) That the licensed person shall provide, upon the CB request, all data, information or statistics at any time and for any specified period and such information shall be identical to the records of the licensed person and it shall be regarded and treated as confidential information;
- p) That the licensed person shall obtain the necessary local licences and commence its activities within six months of the date of issuance of the licence by the CB under this Resolution and the CB shall be provided with a copy of the licence issued by the local authorities as soon as it is obtained;
- q) An application for renewal of licence shall be made within a period of not less than two months before the expiry of the original licence or any renewal thereof;
- r) The licensed person shall at all times comply with all the laws in force in the U.A.E. including the Civil Law, Companies Law and Criminal Law, and in particular the provisions relating to counterfeit coins and banknotes or which provisions any contravention shall be duly reported to the authorities concerned.

## ARTICLE 9 SUPERVISION

The CB reserves the right to inspect the activities of the licensed person at any time it finds it appropriate to ensure adherence to the provisions of this Resolution.

## ARTICLE 10 AMENDMENTS

The CB may make the amendments it deems necessary to this Resolution.

## ARTICLE 11 APPLICATION AND OPERATION

- 11.1 This Resolution shall apply to all money changers operating in the U.E.A. which are licensed under this Resolution or Resolution No. 31/2/1986 made on 16.7.1986. All existing money changers in the U.A.E. are required to reconcile their positions with the provisions of this Resolution within one year from the date of its issue. The Governor may extend the said period by such period or periods not exceeding three months, provided adequate reasons are furnished.
- 11.2 U.A.E. CB Board of Directors Resolution No. 31/2/1986 dated 16.7.1986 is hereby repealed and replaced by this Resolution which shall become operative from the date of its issue.

## ARTICLE 12 INTERPRETATION OF THIS RESOLUTION

Any clarification or interpretation of the provisions of this Resolution may be sought from the Governor of the CB whose interpretation shall be final.

## ARTICLE 13

This Resolution shall be communicated to whomsoever is concerned with its execution and it shall be published in the official gazette in both Arabic and English.

MOHAMMED EID AL MERIEKHY  
CHAIRMAN  
BOARD OF DIRECTORS  
U.A.E CB

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MISS. NARIMAN KAMBER AL AWADI SENIOR MANAGER BANKING SUPERVISION AND	

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## **Attachment IV**

Somaliland Administration (Source: Central Bank of Somaliland)

Draft Guidelines and Translation

Bank of Somaliland

### **Guidelines:**

Foreign Exchange Bureau

Transactions of Foreign Exchange Business by Forex Bureau  
Bank of Somaliland  
Head Office, Hargeisa, Somaliland

### ***Procedures for Foreign Exchange Bureau/ Transferor of Money (Forex Bureau)***

#### *Article 1*

- “A” Foreign Exchange Bureau: is a physical person or a company engaged in trade of foreign exchange and has an office (Forex Bureau) and a license issued by the Bank of Somaliland.
- “B” Money Transfer (Xawaaladle): is a physical person or a company engaged in trade of foreign currency and has an office (Forex Bureau) and a license issued by the bank

#### *Article 2*

### **Grades of Forex bureau and money transfer**

Forex bureau and money transfer are classified into the following categories/ grades:

1. Group A: Large forex bureau and money Transfer
2. Group B: Medium forex bureau and money transfer
3. Group C: Small forex bureau and small money transfer

Guidelines for classification and grading of forex bureau and money transfer shall be based on their property both (cash) and real property submitted to the Bank. The Bank decides the appropriate grade for the applicant.

#### *Article 3*

Any person or a company wishing to open a forex bureau or money transfer business must compile Form Box/Fxd/1 and submit it to the Bank of Somaliland, Department of Forex Bureau/Money transfer or submit it to a branch of the Bank in the district where the activities shall be carried. The branch shall forward the application to the Head Office of the Bank. A non-refundable fee of SI.Shs. 20,000 shall be paid.

#### **Article 4**

##### **Information to be submitted by the person or company:**

- a) Name of the forex bureau or money transfer
- b) Location of the office, telephone number and fax number
- c) Names and signatures of the administrators
- d) Names and authorized signatures
- e) Type of Management
- f) Memorandum of Association
- g) Initial Cash endowment
- h) Other real property

#### **Article 5**

The Exchange dealer/money transfer after obtaining license from the Bank shall pay the fees as specified in the attached guidelines.

#### **Article 6**

Amendments:

Forex bureau that wants to change part or all its management, articles of association, etc. must inform in writing the Bank of Somaliland in the district where it operates.

#### **Article 7**

Change of management:

Forex bureau that wants to change an item of Article 4, Para. J and X, must immediately inform in writing the Bank of Somaliland where it operates.

#### **Article 8**

##### **Change of the name and office designation:**

Forex bureau that wants to change its name or name of the company, or both must immediately inform in writing the branch of the Bank of Somaliland in the

district of operation. The branch shall forward the documents to the Head Office of the Bank.

## **Article 9**

### **Change of Office Location:**

Forex bureau that moves its office to another location must immediately inform in writing the Bank of Somaliland indicating the new location and its address.

## **Article 10**

### **Local Government License:**

Local government shall issue its license to forex bureau only after it obtains a license issued by the Bank of Somaliland.

## **Article 11**

Display of Bank and Local Government Licenses:

Forex bureau must display the licenses in its offices so local Bank and local government inspectors can see it.

## **Article 12**

### **Renewal of the Bank License:**

Forex bureau must renew its Bank license once a year and pay the fee specified in the attached Guidelines.

## **Article 13**

### **Opening of Accounts:**

Forex bureau must open the following two accounts at the Bank of Somaliland:

- a) An account denominated in US\$
- b) An account denominated in Somaliland Shilling

The forex bureau must keep these accounts active. The Bank of Somaliland is responsible to keep funds placed into these accounts and shall pay upon demand at its counter during the normal hours operations of the Bank.

## **Article 14**

### **Forms to be Used:**

The forex bureau shall use the forms designated by the Bank of Somaliland (Form II, III). Copies of Forms II, III, and IV shall be submitted to the Bank of Somaliland.

### **Article 15**

#### **Closure of Accounts:**

The forex bureau must close its profit and loss accounts every three months, and copies submitted to the Bank of Somaliland not later than the 30th of the last month.

Bank of Somaliland has the right to raise questions on the accounts, if needed.

### **Article 16**

#### **Late submission of Closure of Accounts:**

If forex bureau delays submission of the closure of its account for a period of a month, the Bank has the right to send its inspectors to verify the true state of operations the forex bureau.

### **Article 17**

#### **Un-authorized Accounts:**

Forex bureau are not allowed according the laws of the Bank of Somaliland to accept from its customers Deposit Account, Current Account and Savings A/C. Authorized banks in the country can only open these accounts.

### **Article 18**

#### **Guarantee:**

- A. Forex bureau of category (Group A) must deposit with the Bank of Somaliland a cash guarantee/Collateral of US\$ 25,000. The Bank shall keep this non –interest-bearing deposit during the period operation of the Bureau.
- B. Forex bureau of category (Group B) must deposit with Bank of Somaliland a cash guarantee/collateral deposit of US\$ 10,000. The Bank shall keep this non-interest bearing deposit during for the period of operation of the bureau.
- C. Forex bureau of category (Group C) must deposit with the Bank of Somaliland a cash guarantee/collateral of US\$ 5,000. The

Bank shall keep this non-interest bearing deposit during the period of operation of the bureau.

Bank of Somaliland shall release the collateral deposit when the forex bureau informs the Bank of the closure of its operations, and that there are no outstanding liabilities to its customers, and the bank has carried out a satisfactory audit.

### **Penalties:**

Bank of Somaliland has the right to sanction penalty of SI.Shs. 500,000 on any forex bureau, which does not comply with the following provisions:

1. Forex bureau that does not follow the Guidelines.
2. Forex bureau that opens an office without a license.
3. Forex bureau that moves from its designated office location without informing the Bank.
4. Forex bureau that does not submit its profit and loss accounts after three month.
5. Forex bureau that does not submit movement of its operations every 15 days.

### **Article 20**

#### **Need for Local Currency: SI. Shilling:**

Forex bureau who has US\$ and wants SI.Shs. can exchange US\$ 10,000 into Shilling at free market without raising the exchange rate. For any amount exceeding above limit, bureau must contact the Bank of Somaliland.

### **Article 21**

#### **Fees for the Bank of Somaliland on Foreign Currency Remitted from abroad:**

The Bank of Somaliland shall levy a commission of 1% on foreign currency remitted from abroad. Forex bureau must collect the commission and remit it along the list of remittances to the Bank.

## **Article 22**

### **Exchange Rate:**

Forex bureau with offices and moneychangers in the open market can sell and buy foreign currencies using selling and buying rates that are reasonable and does not unreasonably raise the exchange rate.

## **Article 23**

### **Cancellation of Licenses:**

Forex bureau authorized by the Bank and Local government may lose its licenses if it does not comply with the Guidelines.

## **Article 24**

### **Verification of bank notes:**

Forex bureau must possess machines to check counterfeit/forged banknotes from good ones. When in doubt, bureau must contact nearest branch of Bank of Somaliland.

## **Article 25**

### **False Banknotes:**

Forex bureau that receive counterfeit or forged bank notes from a customer should keep such bank notes; give receipt to customer; and forward notes to the Bank of Somaliland for cancellation. Legal action shall be taken against those who imported false bank notes into the country.

## **Article 26**

### **Foreign Exchange Operations:**

Forex bureau should verify that foreign exchange operations of the bureau should be legal and should not engage in illegal operations, such as illegal remittance, evasion of taxes, and operations tied to terrorist organizations.

## **Article 27**

### **Business Integrity:**

Forex bureau must have good reputation in the community it serves. Also its officers must be of good standing and competent to provide information and statistics when needed.

#### **Article 28**

##### **Display of Information:**

Forex bureau must display, in its offices, public notice the services of selling and buying of foreign currencies for its client.

#### **Article 29**

##### **Business Secrecy:**

Forex bureau must keep office secrecy of transactions of their business.

#### **Article 30**

##### **Exchange Rate Movements:**

Bank of Somaliland shall follow movement of exchange rates (selling and buying rates) determined by market forces. It is forbidden to engage in activities that unreasonably raise the exchange rate and confuse the market. Anyone who infringes the law shall be liable to one-year prison or a fine of SI.Shs. 1,000,000/=

#### **Article 31**

##### **Power of the Bank of Somaliland:**

The Bank of Somaliland reserves the right to amend these Guidelines if deemed necessary.

#### **Article 32**

##### **Complaints:**

Complaints against this Guidelines can be presented to the Regional Court.

#### **Article 33**

Any rule or regulation contrary to this one is repealed.

Bank of Somaliland  
Head Office, Hargeisa, Republic of Somaliland

## Consultations and Briefing

The following are individuals, organizations and governments that were either briefed and/or consulted for this report:

### Remittance companies:

- Dahabshiil PVT.LTD.Co
- Salama Money Express
- Amal Money Exchange
- Al Mustaqbal
- Towfiiq
- Barwaaqou
- Kaah Express
- Al-Baraakat (former officials)

### Somaliland

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Stuart Foster

Wardi Ibrahim Osman

Bank of Somaliland, Governor  
Somaliland Chamber of  
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Ahmed Omar Ahmed	Abu Dhabi Commercial Bank, Deposit Officer
Omar Ibrahim Hussein	Arab Monetary Fund, Senior Economist

### **Somali Business Council**

Ahmed Sharief Ahmed	Vice Chairman
Omer Aden Liban	Secretary General
Mohamed Jirde Hussein	Executive Committee member
Shire Haji Farah	Executive Committee Member

### **Other Businesses in United Arab Emirates**

Mohammed I. Yassin Olad	Daallo Airlines, Managing Director
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Capt. Osman Farah	Swift Freight, Shipping manager
Mohamed Shafiq	Al Tahar General Trading, Managing Director

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**The World Bank/EDI**

Mohamed Alin	Micro and Rural Finance Specialist
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