

# Between Suspicion and Celebration: The Somali Money Transfers Business

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The multi-billion dollar global business of transferring migrants' money to their countries of origin has attracted considerable attention during the last decade. A preoccupation with both the security implications and the development potential of this business has prompted numerous efforts to influence how migrants send their money home.

Migrants use a wide range of intermediaries to remit funds—from friends, traders, bus and taxi drivers, and couriers, to banks, specialised money transmitters, post offices, mobile phone companies and microfinance institutions. A large proportion of remittances, particularly in Africa, are still transferred by intermediaries operating beyond state regulations, in the informal economy. However, the views about their impact remain polarised.

Some analysts believe that money sent this way fails to realise its potential to invigorate home economies because it often ends up financing corruption, criminality and extremism. Others believe that such money transfers offer opportunities for entrepreneurship and 'barefoot capitalism' since, by circumventing overpriced and inefficient services offered by formal financial institutions, they can better serve the interests of migrants and their families.

This Development Viewpoint attempts to shed light on these issues by examining the Somali money transfer business, which is arguably both the most sophisticated and the most controversial in Africa (See Lindley 2009). Over the last three decades, specialised indigenous money transmitters have emerged to play a vital role in connecting war-torn cities, refugee camps and remote rural areas to the rest of the globe. But the workings of *xawilaad*, as the money transfer system is known in Somali, are more formalised and complex than commonly recognised.

## The Expansion of Money Transfers

As the civil war engulfed Somalia and the banking sector collapsed, the demand for alternative financial mechanisms grew. Refugees, political factions, aid agencies and traders all needed to move money into, and out of, the country.

The most common way to send money utilised a value transfer method, *xawilaad*, which dates back centuries. Customers give their funds to an agent who instructs a trusted contact in the destination area to pay the intended recipient. The debt between the agents is settled at a later time, such as via trade transactions.

During the 1990s, many independent agents that had transacted with a network of personal contacts were incorporated into larger specialist money-transfer enterprises, which were often led by well-established livestock or trade entrepreneurs. This change enabled individual agents to deliver or receive money from a wider range of locations, using a centralised corporate hub to consolidate and settle debts. Relying

initially on intra-clan social ties, the larger companies expanded their customer base and profits by solidifying a broader network of *inter-clan* relationships, using customary law (in the absence of state institutions) to provide guarantees and resolve disputes.

Money transfer entrepreneurs succeeded in building extensive business networks in the midst of continuing political upheaval and violence, and by 2005 were handling (according to the World Bank) an estimated US\$ 2 billion annually. The sector rapidly incorporated new communications technology, from mobile and satellite phones to email and specialist business software.

Each of the larger companies, such as Al-Barakaat, Dahabshiil and Amal, had hundreds of agents spanning the globe and became major employers in the Somali regions. The directors of these companies are no barefoot capitalists. They are distinctly well-shod entrepreneurs, many from pre-war business dynasties, with political savvy and economic clout.



Somali Money Transfer Adverts in Wembley, London (Joseph Winter, BBC)

Nor are they the classic conflict entrepreneurs, known for exploiting high-value or illicit commodities such as diamonds and drugs, who have featured prominently in analyses of war economies. The bulk of their business involves small packets of migrants' hard-earned cash, requiring the cultivation of considerable trust across a broad cross-section of local people. Moreover, their services have served to sustain local livelihoods and alleviate suffering.

## Suspicion, Regulation and Response

Though Somali money transfer infrastructure had prospered during

the 1990s, its success was imperilled after 9/11, when the Bush administration accused Al-Barakaat, at that time the largest company, of links to terrorist groups. In many countries, the company's banking accounts were immediately frozen and it was effectively driven out of business. In due course, however, it became clear that the charges lacked credible intelligence and could not be legally substantiated.

The initiation of this financial 'war on terror' heralded, more broadly, a drive to regulate international money transfers. Indigenous financial systems used by migrants were subjected to considerable, if not disproportionate, scrutiny. They were regarded by regulators as, at best, particularly vulnerable to manipulation by criminal or terrorist organisations or, at worst, expressly designed for such purposes. As a result, Somali operators were under increasing pressure to comply with more stringent regulations in the financial jurisdictions in which they operated.

Following rapid growth in the 1990s, the major companies were now forced into a critical self-assessment of their business strategies. Where regulatory environments and market size permitted, there was a growing professionalisation and consolidation of large enterprises. Services on offer became more sophisticated, including express delivery, text alerts and online tracking, deposit accounts, and even debit cards. Meanwhile, smaller operators, drawn by the lure of healthy profits, also proliferated. But they often struggled to comply with official regulations and establish themselves internationally.

Thus, although Somali money transmitters are often described as informal, in fact many are registered or licensed by the authorities in the countries in which they operate. The boundaries between 'formal' and 'informal' in this business are far from clear: they change across space (from one jurisdiction to another) as well as over time (as new regulations are introduced).

Moreover, it is questionable how meaningful the term 'informal' is in the Somali context, where a unitary independent state was relatively short-lived and now multiple political forces vie for sovereignty and extend their influence into the private sector in diverse ways.

### Defence and Celebration

In the wake of the financial 'war on terror', the United Nations and the aid industry mounted a public relations defence of what they regarded as the remittance 'lifeline'. They were alarmed by the potential humanitarian consequences of company closures on a war-affected

population reliant on remittances and they recognised that they were also heavily dependent on *xawilaad* to relay their project funds.

UNDP intervened with regulators on behalf of money transmitters under threat, and began a programme of activities to help bring them into the regulatory fold and support their development. As time went on, the development community began to see remittances, and the infrastructure that conveyed them, as a source of 'development capital'.

The money transfer companies appeared to be one of Somalia's few 'good news stories'. They were seen as important private-sector actors that could contribute to stabilisation and development. They could not only facilitate transfers but also provide financial services capable of fostering investment in income- and employment-generating activities, thus translating individual gains into broader community benefits.

### Concluding Observations

The last decade has transformed the role of money transfer systems from a relatively arcane issue, supposedly limited in importance to high emigration states, into a much larger and more complex security and development issue.

Glossing over the complexity and fluidity of the Somali *xawilaad* sector, which is constantly adapting, innovating and transforming itself, the international development community has vacillated between suspicion that it facilitates flows of 'dirty money' and celebration of its potential as a source of 'development capital'. Going forward, however, neither simplification is likely to be helpful.

Instead, the *xawilaad* system is best understood as a sophisticated infrastructure of considerable scale and significance which, in the absence of a domestic banking system, articulates economic relationships between the Somali regions and the rest of the world—mediating not only remittances but also trade, investment, aid and political finance. Having to constantly negotiate intricate relationships with a wide range of Somali political structures and state authorities abroad, money-transfer companies both earn transnational profits and facilitate local livelihoods and survival.

### Reference:

A. Lindley (2009). "Between 'dirty money' and 'development capital': Somali money transfer infrastructure under global scrutiny", *African Affairs*, 108 (433).

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