

UK–Somalia Safer Corridor Initiative – October 2015

The *Safer Corridor Initiative* brings together work by the UK Government, supervisors and representatives of the UK banking sector and Money Service Businesses, the World Bank, and the Somali community in the UK to:

- address underlying deficiencies in the UK-Somalia remittance corridor
- provide assurance to banks that the risks can be managed effectively
- support the Somali authorities to build a regulated financial sector in Somalia

This document summarises actions taken to date across the three stages (referred to as ‘miles’) of the UK-Somalia remittances corridor, and the action plan going forward.



Background

Context

Building a stable and prosperous Somalia is one of the Prime Minister's top foreign policy priorities. The UK is the second largest bilateral donor to Somalia, providing nearly £200 million in 2015/16 to support and grow Somali national security forces; consolidate peace, security and stability; address humanitarian needs; create jobs and growth; and improve access to healthcare, particularly for women and children. A key focus of our strategy is to support the Somali authorities to build a functioning financial system, with correspondent banking relationships that enable secure and transparent financial flows to Somalia.

Although Somalia has made substantive progress in recent years, humanitarian needs are still great and the UK Government is acutely aware of the importance of remittances in helping address those needs. Remittances account for approximately half of Somalia's gross national income. Remittances from the UK alone amount to \$500 million dollars per year¹, 90% of which are spent on food, healthcare and education.² The UK Government recognises that this is a vital lifeline for millions of Somali families and will continue to support efforts to maintain remittances flows from the UK to Somalia.

Market instability

There has been a global trend in recent years of banks withdrawing accounts from Money Service Businesses (MSBs), due to concerns over money laundering and terrorist financing risk within the sector, and the cost of managing the legal and regulatory risks. This trend has been felt particularly by UK-Somalia money remitters, as the banks perceive this corridor to be a higher risk given the lack of a fully functioning banking system in Somalia. However, the Government holds the view that the risks in the corridor are manageable. There is also significant progress being made on the banking situation in Somalia but this will take time.

In late 2014 there was a real concern that the UK-Somalia remittance corridor could collapse. HMG began looking into contingency measures should the worst happen. One of these measures was a *Safer Corridor Pilot*, which could be mobilised in the event of a significant disruption to the flow of remittances. An intervention of this nature could only be deployed as a last resort, given that Government intervention could itself have a de-stabilising impact on the market.

Recent developments

The need to mobilise the *Safer Corridor Pilot* did not materialise as the market proved resilient, adaptive and remittances continued to flow from the UK to Somalia. This has enabled HMG to focus instead on the structural issues impacting remittances flows in general. As a result we have shifted our approach from a short-term *Safer Corridor Pilot* to a more medium-long term *Safer Corridor Initiative*. Another significant development is the recent political commitment by the Federal Government of Somalia (FGS) and Central Bank of Somalia to build a robust financial architecture in the country and the FGS's creation of a Special Task Force on Remittances. The UK is now able to align our efforts to strengthen the UK-Somalia remittance corridor with the Somali authorities' own strategic plans.

¹ The World Bank, 2012. 'Bilateral Remittances Matrix'

² <http://remittanceprices.worldbank.org/en/remittance-resources>

It should be noted that the Government does not intervene in the decisions of banks to offer services to a particular customer or group of customers. The *Safer Corridor Initiative* aims to strengthen existing channels and to address the concerns of banks which have led to the closure of accounts in the MSB sector. It is vital to build confidence among all players in the sector so that remittances continue to flow securely and transparently.

What action has the UK Government taken so far?

The UK Government established an Action Group on Cross Border Remittances, which has met regularly since January 2014. This Action Group brings together government, supervisors and representatives of the banking and MSB sectors. The Action Group oversees a number of streams of work, including the *Safer Corridor Initiative*, increased supervision of MSBs, improved industry guidance and training, clarification of regulatory requirements, and risk analysis and sharing of information.

Throughout 2014 and 2015, the Government has monitored developments in the UK-Somalia remittance corridor closely and maintained regular contact with banks, money remitters, the Somali community and interested NGOs such as Oxfam. DFID funded a survey into remittance sending behaviour in London through the World Bank³. Whilst the UK market remains fragile, it has also proved to be resilient and there is no evidence to date of an interruption in the flow of remittances between the UK and Somalia. The Government remains fully committed to working with MSBs and the financial sector on this issue and to take forward activities to rebuild the confidence of the banking sector and strengthen the corridor for remittance flows to Somalia.

The Government has also engaged regularly with authorities in other remittance “sending countries”, as well as the World Bank, in order to understand their perspective and coordinate our response. It maintains close contact with the Somali authorities to ensure that all UK support is closely aligned to their strategy for strengthening the financial sector in the country.

³ <http://remittanceprices.worldbank.org/en/remittance-resources>

1st mile – UK

Over recent years there has been increased concern from the UK financial sector about offering services to businesses operating in sectors which are identified as posing a higher risk of money laundering or terrorist financing, including the MSB sector. Banks have raised concerns around the level of compliance within the UK MSB sector, and asked for better guidance on how to appropriately manage risk.

Actions taken in the first mile are aimed at improving the compliance standards of UK-based MSBs, including tackling any criminal activity, thereby giving greater confidence to banks.

Action taken by UK Government

- The Joint Money Laundering Steering Group has issued guidance to banks and MSBs that provides them with a legal defence in court if followed: <http://www.jmlsg.org.uk/industry-guidance/article/jmlsg-guidance-current>;
- HMRC has provided new guidance to the MSB sector on strengthening their compliance: <https://www.gov.uk/government/publications/anti-money-laundering-guidance-for-money-service-businesses>;
- HMRC more than doubled the number of compliance visits to MSBs in 2014 to 1,400 to provide an additional boost to the regulatory scrutiny of the MSB sector;
- HMRC launched an e-learning product to improve MSBs' understanding of their obligations under the Money Laundering Regulations: <http://www.hmrc.gov.uk/courses/aml/msb/>
- The National Crime Agency held a series of workshops with banks and remittance companies to help them manage risk more effectively;
- The Financial Conduct Authority, the Financial Action Task Force and FinCen have all publicly issued statements to clarify any regulatory uncertainty on the part of banks which inhibit the provision of banking services to the sector:

<https://www.fca.org.uk/about/what/enforcing/money-laundering/derisking>;

<http://www.fatf-gafi.org/documents/news/rba-and-de-risking.html>;

http://www.fincen.gov/news_room/nr/html/20141110.html;

Planned action

- HMG will continue to raise awareness of the range of activity that has taken place, and continues, in the first mile so that banks are aware of the increasing regulatory oversight of MSBs;
- HMG will issue an unclassified country profile on Somalia, to help inform banks about the broader political, economic and security situation in the country.
- <https://www.gov.uk/government/groups/action-group-on-cross-border-remittances>
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2nd mile – Dubai

As there is no developed banking system in Somalia, or correspondent banking arrangements, financial transfers between the UK and Somalia travel through a third party, usually based in Dubai, United Arab Emirates (UAE). The Dubai entities (which are often affiliates of the UK MSBs) provide the netting and counterpart trading arrangements to enable funds to be paid out in Somalia. Banks' lack of familiarity with the Dubai arrangements and lack of visibility of trade based transactions adds to their lack of confidence in the overall MSB sector.

Actions taking place in the second mile are designed to give banks greater confidence in money remitters' compliance procedures and to provide a greater understanding of the clearing and settlement scheme for Somali remittances.

Action taken by UK Government

- HMG mission to Dubai with World Bank to observe an MSB's compliance operations (which included background checks on traders and IDs) and understand UAE authorities' compliance approach and the filing obligations there.

Planned action

- HMG is aware that work is ongoing in Dubai with the UAE authorities around a 'Gold Standard', aimed at strengthening internal controls and compliance, that would cover Somalia MSBs operating in the UAE (some of which also operate in the UK). The UK Government continues to engage with UK-based Somali MSBs as this work develops, and stands ready to assist where possible.

3rd mile – Somalia

The regulated financial sector of Somalia is limited in size, simple in structure, and is currently isolated from the global financial infrastructure. The lack of regulation and supervision of the money transfer sector causes uncertainty for global banks looking to operate with Somalia. The historic lack of identification documents in Somalia means that it can be difficult for MSBs to verify the identity of those receiving remittances.

The Federal Government of Somalia has taken the lead in establishing a plan to support the flow of remittances to Somalia.⁴ This is an important step in ensuring that work undertaken by the UK on this issue will be sustainable in the long term. The activities at the Third Mile under the *Safer Corridor Initiative* are aimed at accelerating the regulation and supervision of the remittances sector, as part of a longer term programme to support the formalisation of the financial sector in Somalia. These activities will initially take place at the federal level but the regional authorities will be kept closely involved, particularly on the Trusted Agent.

Action taken by UK Government

- DFID funded an assessment of technical solutions for recipient registrations in Somalia, such as the use of biometrics, in order to help provide reassurance to UK banks that funds are not being transmitted to those associated with terrorist organisations, or subject to sanctions:
<http://www.fsdafrica.org/knowledge-hub/documents/detailed-recommendations-to-reduce-and-manage-risk-at-the-last-mile-of-the-uk-somalia-safer-corridor-pilot/>
- DFID funded fieldwork research by a Somalia consultancy organisation (Katuni) to aid the World Bank on the design of a *Safer Corridor Pilot*.

Planned action

The World Bank and DFID are supporting the Federal Government of Somalia and the Central Bank of Somalia on the following third mile:

- drafting and issuance of new AML/CFT legislation, MSB operating regulations and customer registration rules to apply to MSBs operating in Somalia;
- establishment of a financial intelligence centre in Somalia, in line with the requirements set out in the draft AML/CFT legislation and Egmont principles;
- assisting the Central Bank of Somalia to draft regulations for the money transfer sector, and to ensure compliance of all registered and licensed operators in Somalia;
- establishing a Trusted Agent, to conduct on and off-site supervision of MSBs on behalf of the Central Bank of Somalia, to ensure they are meeting their regulatory requirements;
- coordination with the Special Task Force on Remittances established by the Somali Government, through membership of the Somalia Remittances Stakeholder Advisory Council, to ensure UK support is well coordinated with other donors and aligned with Somali plans.

These actions will help formalise the remittance sector in Somalia, giving banks in the UK greater confidence about the final destination of any money being sent through their channels.

⁴ "Formalizing the Financial Sector in Somalia – enabling safer flows of remittances and building foundations for the sector"