

# Mobile Money: The Case for Somalia

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Early in 2013, the new Somali government faced severe currency crisis caused by the sharp appreciation of Somali shilling against the U.S. dollar. I recall the criticism and the recrimination directed to the leaders of the new government who were accused of failing their responsibility of providing a monetary system for the country. I recall President Hassan asking the international community for food donations to mitigate the severity of this problem. I recall Puntland suspending its relationship with the Federal government because the latter failed to print currency for the economy.

I followed this problem with keen interest. To my surprise, suddenly the hue and cry about the currency crises subsided and the accusations and the attacks against the government ceased. I asked myself: what happened? How did they find a solution to the problem of currency crisis? I researched and I haven't found any shipment of new banknotes!

I think I got the answer now. The problem was not solved by government actions. It was not solved by the introduction of new currency or the supply of food aid donations. What solved the problem of acute shortage of Somali shillings and changed the situation are the "mobile money" services. I did not realize this until I came to Somalia for a brief visit. Thus, this article is about mobile money.



## What kind of money is mobile money?

This mobile banking follows a simple procedure as outlined below:

1. There must be a telecommunication company providing the service
2. You register by filling a form
3. You provide an ID and the agent takes your picture
4. You open an account
5. You choose a PIN
6. You hand the Dollar amount (cash) you desire to deposit to the agent
7. After a few seconds you receive a text message confirming you have deposited such and such amount.

Your cash money has disappeared and you don't see it. But don't worry. It is real money and it is even more efficient than the cash. For example:

- It is more convenient. While you are sitting in a sofa in your house and using your telephone, you can buy whatever you want, send money to whomever you want and see the balance remaining.
- It reduces the transaction cost. For example, before the introduction of mobile money, if someone who is in Galkayo wanted to buy merchandise from Bossaso, he or she was forced to travel with a sack of cash from Galkayo to Bossaso, spend a day for travelling; risk the loss of money through robbery, spend money for hotel while in Bossaso, go through the trouble of counting bundles of dirty banknotes. Now within seconds you send the money through the telephone and save money and time that you can use for improving the productivity of your business. This, in turn, will help the whole economy to grow.
- Mobile money represents a financial revolution made by the less developed countries. These countries are going towards a cashless society while the developed countries are far behind in this sense.
- A survey conducted by Gates Foundation, World Bank and Gallup found that “Somalia was one of the most active mobile money markets: 26% of the population are reported using mobiles to pay bills, which is the highest rate in the world, and 32% to send and receive money”.<sup>1</sup>
- Mobile-money service providers in Somalia are:
  - o SAHAL mobile money services provided by Golis Telecom in Puntland
  - o EV-PLUS mobile money services provided by Hormud Telecom in Southern Somalia,
  - o ZAAD mobile money services provided by Somtel Telecom in Somaliland
  - o E-MAAL mobile money services provided by Nationlink Telecom

While I was in Garowe, Puntland, I had the opportunity to meet with the managers of Golis Telecom. I met Said Aden Mohamed, the general manager; Osman Isse Mohamud, The sales manager; and Mohamud Ismail Aw Osman, the manager of Nugal region. These Golis officers told me that

- There are 250,000 Sahal subscribers in Puntland;
- The total transactions in a month amounts to US\$ 20 million;
- The average yearly positive balance is US\$ 1 million;

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<sup>1</sup> Mobile money in Africa. Press 1 for modernity. One business where the poorest continent is miles ahead. The Economist, Apr 28th 2012

- There are 60 service centres with 1,100 staff
- Golis has a bank: the Salama bank.

### **How mobile did money solve the currency crisis?**

As I mentioned in previous articles, the Somali economy has been dollarized for a long time. In fact all the prices are quoted in US dollars, from the government budget to the can of oil at the stores. *What was missing* were US dollar changes (low denomination coins) to pay for low value item such as: a cup of tea, a piece of samosa, a plate of spaghetti, a fee for a service, etc.



Mobile money solved this problem by allowing people to buy everything they want that includes a cup of tea, coffee, sandwich, lunch of some sort, clothes, shoes, foodstuff with mobile money. This produced two things: It dollarized the whole economy to the extent that we can now say that Somalia uses the US dollar as legal tender like Panama, El Salvador, Ecuador etc. Secondly, it reduced the demand for Somali shillings in line with its reduced supply and hence stabilized the exchange rate at 20,000 per US dollar. In the past, when the supply of US dollars increased, the Somali shilling used to appreciate as the US dollars were converted into shillings. Now, people use the US dollars directly without buying Somali shillings and affecting the exchange rate.

The shilling that survived the civil war, endured without a government, defied the American dollar, baffled the world economists, the mighty shilling has now been sidelined by the mobile (telephone) money.

Let me give an example. I previously visited Puntland in 1997. At that time, you could see bundles and bundles of Somali shilling banknotes stacked over a table like a wall and a money-changer sitting behind the table. At that time, I changed all the US dollar money I had into shillings. Nowadays, you see a different picture. Nowadays, you see only pieces of 1000 Somali shillings dirty and worn out and a money-changer sitting behind an empty table with no customers. During my stay in Garowe, I have changed only two dollars for shoe shine and I used mobile money to transfer the 2 dollars to the money-changer.

### **Can mobile money vanish into thin air?**

Money is prone to risk, whether it is electronic or hidden under your mattress or deposited in a bank. And money must be managed with proper controls and accountability. Mobile money needs more oversight since it is a new system. The central bank is the institution responsible for

the regulation of mobile money. I believe that the central bank will, in future, build its supervisory capacity. At present, however, it is not in a position to regulate the mobile money services.

Fortunately, there are many countries that have implemented mobile money services and issued guidelines regulating these services. We can follow their footsteps.

Points to consider for prudential purposes

- Does the mobile money service provider have adequate financial, managerial and technical capability? Does it have appropriate and tested technology systems;
- Is the mobile money provider organized as a limited liability company or not? Is it licensed by the central bank? ;
- Is the service provider protecting the privacy of the customers? Is there any customer recourse and complaint procedures;
- Is the service provider adhering to the regulations against money laundering and terrorist funding? These regulations require customer identification document. Some people have voiced their concern about this rule since many people do not have identity documents in Somalia. Sahal solved this problem by taking the picture of every customer.
- Is it desirable to set the maximum amount of money to deposit in mobile money wallet? For example, a maximum of US\$2000. Some countries require that customers' balances be held in a trust account in a reliable bank.
- How to promote a system enabling service providers to become interoperable with each other
- How to encourage competition and avoid anti-competitive practices;



### **Is there a need to print Somali shilling banknotes?**

We need to print new Somali shilling notes as a part of the effort to reform the currency system in Somalia. However, at the present time I caution against printing new banknotes. The situation is now different. We have an efficient payment system represented by mobile money services. There is no currency and exchange rate crisis at the present time. This gives the government time to focus on issues such as completing the constitution, improving the security situation, preparing for the elections in 2016, and expanding its authority on all the regions of the country.

I am cautioning against the printing of new Somali currency because the Central bank of Somalia has no capacity to issue new currency and withdraw the old notes from circulation. For instance, the central bank has no branches in regions outside Mogadishu. Let the government postpone the printing of money and focus on the most urgent thing which is security.

## **Conclusion**

As I mentioned above, a financial revolution occurred in Somalia. Surprisingly, within a short time the society moved to a cashless society. This is amazing. The payment system is now smooth. It facilitates the trade and hence economic growth. But it is a new system which has to be carefully managed and monitored.

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