BETWEEN ‘DIRTY MONEY’ AND ‘DEVELOPMENT CAPITAL’: SOMALI MONEY TRANSFER INFRASTRUCTURE UNDER GLOBAL SCRUTINY

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ABSTRACT
Money transfer infrastructures have come to play a prominent role in the Somali regions, connecting war-torn cities, refugee camps, and remote rural areas with the rest of the world. Drawing on primary research, this article provides the first detailed history of the development of Somali money transfer infrastructure since the civil war, including its response to international intervention. The account raises issues of wider significance relating to recent debates on migrants’ remittances, informal economies and conflict. In particular, the money transfer story demonstrates how crisis can become an opportunity for adaptive commercial actors using social ties to navigate the dangers of civil war. Meanwhile, the international community’s attempts to define Somali money transfers as either dirty money or development capital demonstrate a more general ambivalence towards ‘actually existing developments’ in conflict-affected Africa.

MONEY TRANSFER INFRASTRUCTURE IS INCREASINGLY VIEWED AS A ‘development issue’, as well as a multi-billion dollar global business. African migrants use a range of mechanisms to send money home – from friends, traders, bus and taxi drivers, to banks, specialized money transmitters, post offices, mobile phone companies, and microfinance institutions.1 Migrants’ remittances have been highlighted as a major global financial flow, with complex impacts in countries of origin. Improving the financial intermediation of remittances and linking it to the wider agenda of expanding access to (formal) financial services are increasingly seen as a key way to maximize the

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positive effects of remittances for recipients, communities, and countries of origin.\(^2\)

Meanwhile, a large portion of Africa’s money transfer infrastructure operates beyond state regulations, and has been caught up in debates about the role of the informal economy in development. Diagnosed by neo-liberal policy makers in the 1980s as the result of market distortions, the informal economy was by the late 1980s hailed as exemplary barefoot capitalism and popular resistance to the failures of the state, and then from the 1990s increasingly associated with corruption, criminality, conflict, and extremism.\(^3\) In particular, there has been great interest in how extra-state economic activities, often with a significant global reach, become part of the endogenous dynamics that protract conflict in parts of Africa.\(^4\)

Against this background, how are we to understand Somali money transfer infrastructure, which is arguably the most advanced on the continent? What does this remarkable case tell us about remittance systems, informal and conflict economies, and external intervention? Since the collapse of the formal banking system, specialized money transmitters – known as xawilaad – have come to play a prominent role in the Somali regions, connecting war-torn cities, refugee camps, and remote rural areas with the rest of the globe. Some operators are even expanding beyond their Somali customer base to serve other African nationalities. How has Somali money transfer infrastructure navigated the threats posed by civil war and predatory political actors at home, and by government suspicion and financial regulation abroad? The story draws attention to the business dimension in understanding the dynamics and impact of remittances in countries of origin. It shows how crisis can become an opportunity for adaptive actors and the importance of social ties for the development of economic infrastructure in the absence of a unified state. It also demonstrates the fundamental ambivalence of the international community towards ‘actually existing developments’ – beyond official development plans – in conflict and shadow economies in Africa.\(^5\) The first part of this article explores the history of Somali financial infrastructure, the emergence of specialized money transfer enterprises, and how they have navigated risk to prosper in insecure settings. The second part explores international interventions in the sector following 9/11 aimed at combating ‘dirty money’, including the closure of the largest enterprise,

Al-Barakaat. It also discusses the adaptive response of the money transfer sector, the humanitarian defence of money transfer infrastructure, and its transformation into a potential source of ‘development capital’.

The analysis is based on original research carried out in Hargeisa, Nairobi, and London in 2005, plus previous and subsequent consultations in the UK, US, Somaliland, Denmark, and Norway. It draws on interviews with money transfer workers (ranging from senior management to cashiers and ex-employees), other businesspeople, government officials, UN and NGO workers, and technical advisers. Political, regulatory, and commercial sensitivities make money transmitters cautious about outside interest and those who helped with my research were guaranteed anonymity. The analysis also draws on wider research on Somali migration and remittances, including the experience of carrying out surveys of senders and recipients at money transfer offices in the UK and Somaliland.

A short history of Somali financial infrastructure

Informal financial practices were ubiquitous long before the collapse of the Somali Republic. People have long-standing traditional practices for keeping money safe, making savings, obtaining credit and insurance, and sending money home: for example, depositing money with shopkeepers; calling on richer clanspeople or local business notables for loans; using hagbaad, a rotating savings/credit system (particularly popular with women); and participating in the diya (clan compensation) system as a form of insurance. The pre-war formal financial sector served only a privileged urban minority, was riddled with corruption, and suffered bankruptcies and looting as Siad Barre’s regime crumbled, which left the general public with a deep-seated mistrust of banks.\(^6\)

Alternative financial mechanisms also developed, linking the Somali regions to the rest of the world. With growing migration to the Middle East in the 1970s and 1980s, and large differences between official and street exchange rates, rather than sending bank transfers, migrants used the franco valuta (FV) system to remit funds home, giving funds to traders, usually of the same clan, who exported goods to Somalia, paying the migrants’ families from the proceeds of their sales. While this system – at least in some of its aspects – was legalized for periods, particularly when there was an urgent need for foreign exchange, concerns were raised about the banking system’s loss of control, the undervaluing of imports for tax evasion, and the prevalence of consumer products rather than production inputs among the

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6. Abdusalam Omer, ‘Supporting systems and procedures for the effective regulation and monitoring of Somali remittance companies (Hawala)’ (briefing document, UNDP Somalia, Nairobi, 2002).
imports, which failed to stimulate local manufacturing. The prohibition of FV in the early 1980s particularly aggrieved northern merchants who benefited substantially from the system, and may have boosted support for the Somali National Movement. Yet it continued to flourish informally, and this meant that the realities of life for most extended families in urban Somalia belied the disastrous official statistics.

As civil war engulfed the Somali regions, the late 1980s and early 1990s were characterized by a high demand for money transfer – with new refugees remitting to relatives, factions raising finance, and the international community making massive transfers to fund aid programmes and peacekeeping operations – combined with low-tech facilities and high fees. The second half of the 1990s saw rapid growth in money transfer infrastructure, with continued demand from refugees and aid agencies, increasing demand from the flourishing business community, a revolution in communications technology, and falling prices.

At first, as the trade-based method of remitting funds was slow and easily disrupted by the violence, hand-carrying money or delivering cash via qaad flight operators became commonplace. But these rather risky methods were soon superseded by a more ingenious and reliable mechanism. Xawilaad was the Somali rendering of the Arabic word hawala, meaning ‘transfer of debt’, referring to a system of value transfer that has facilitated long-distance trade in the eastern Mediterranean, the Red Sea, Mesopotamia, and Iran since the early medieval period of Islam and is still popular in the Middle East, Asia, and their trading and migrant diasporas. In its simplest version, the customer gives money to an agent who contacts a second agent with the instruction to pay the recipient. The value or debt is transferred rather than actual money. The debt is settled at a later point, via reverse transactions, trade transactions, multilateral transfers or consolidation of debts involving other agents. Hawala agents are independent actors transacting with a loose network of contacts. This soon took off in the midst of the Somali civil war, as high frequency radios, which formerly only the military and police were authorized to use, fell into the hands of private individuals, and imported radios also flooded in. Radio operators (taar) would relay payment instructions to operators elsewhere in the region, usually clanspeople or trusted business associates. In some areas the factions got their cut, and middlemen

abroad would charge a hefty commission – as much as 15 percent – for transferring money to their contacts in Somalia.\textsuperscript{11}

\textit{The rise of specialized money transfer enterprises}

Over the 1990s, many \textit{xawilaad} operators were incorporated as franchises into the agent networks of larger enterprises specializing in money transfer, often run by large international livestock or goods traders, enabling them to deliver money to or receive money from a wider range of locations than was possible through their personal contacts alone, and to use a centralized hub to consolidate and settles debts. Typically, having received a payment for a named recipient in Somalia (over the counter or by bank transfer), the ‘receiving’ agent forwards instructions to a central clearing house which relays instructions to the relevant local agent in Somalia. The paying agent contacts the recipient to collect the money, which is made available in US dollars, generally within 24 hours, although there are express services. Subsequently, the debts are settled. The sending agent deposits cash collected in a local bank account which regularly forwards funds to a national company account or to a central international bank account, generally in Dubai. Companies replenish the funds of paying agents in various ways: by importing goods to Somalia and using the proceeds to pay agents, by agents retaining outbound transfers, or by sending people from Dubai (although physically transporting cash is generally avoided).\textsuperscript{12}

The sector rapidly incorporated new technologies to relay payment information, from radios to fax, mobile and satellite phones, to email and dedicated company software. Money transmitters’ substantial investments helped drive Somalia’s telecommunications revolution. Fixed teledensity is higher in Somalia than in many neighbouring countries and international phone calls are relatively cheap. This not only facilitated the operation of transfer services, but also fanned the supply and demand for these services by facilitating contact between refugees and their relatives at home.\textsuperscript{13}

In order to establish a money transmitter, substantial start-up capital is needed to pay core staff, establish agent networks, and provide operating funds: most remittance entrepreneurs have built up capital through prior business activities.\textsuperscript{14} Generally agents act as franchises, receiving a percentage of their transfer fees on a monthly basis, often operating out of other

\textsuperscript{12} Roland Marchal, ‘A survey of Mogadishu’s economy’ (European Commission survey, Nairobi, 2002).
\textsuperscript{14} Some commentators claim that some investors profited through the looting of state funds and lucrative gains from food aid brokering in the early 1990s.
businesses serving the migrant community – internet shops, call centres, foreign exchange bureaux, wholesalers, cafés. The main ways of making money are through fees charged to the sender, the exchange rate spread (the difference between the exchange rate paid to purchase foreign currency wholesale and the less favourable rate offered to the customer), and linked trading activities. Over the years, the fees gradually decreased: at the time of writing, most operators charge around 5 percent to Somalia, and 6 percent to other countries in the region, with special rates for large transfers and exclusive customers. Managers claim that it is a vigorously competitive business. As I saw when spending a week in an outlet on a street in London that boasted several Somali transmitters, most people have their favourite, but some compare fees and exchange rates before choosing. However, in more peripheral diaspora locations, options are few and fees are often higher.

The major money transmitters are now well-established businesses with agent networks spanning the globe, handling some $2 billion annually, destined for Somalia and other countries.\(^{15}\) The market is constantly changing, as companies are established, amalgamate, or go under. Since the fall of Al-Barakaat, the two best-established companies are Dahabshiil and Amal, which are household names in Somali communities in the Horn and overseas.\(^{16}\) Dahabshiil is the only company to be owned by a sole proprietor, Mohamed Said Duale, an import-export trader who entered the money transfer business following the mass displacement from the north-west to Ethiopia in 1988. The company established an office in Dire Dawa, initially using radios to read out payment instructions to agents in Somalia. After further displacement from the rest of Somalia in 1991, the money transfer business really began to boom, and in 1996 the head office moved to Hargeisa. Dahabshiil expanded into other Somali regions and today is the largest Somali money transmitter – some estimate it has a 60 percent market share. The company has over 1,000 branches and agents in 40 countries – including over 400 in the Horn of Africa.\(^{17}\)

The other companies have multiple shareholders, and are run by a board of directors or executive committee. For example, Amal was established in 1997 by thirteen businessmen already engaged in trade and xawilaad, who established a base in Bosaso and initially targeted Puntland’s Darod communities. Two groups of shareholders then broke away to form separate companies, Dalsan and Tawakal; today, Amal has seven major shareholders and numerous minor shareholders. The network grew rapidly and is probably the second largest Somali money transfer firm, with around 300 overseas agents and over 350 outlets in Somalia – in the north-east and

\(^{15}\) World Bank, *Somalia*.

\(^{16}\) Other companies of a reasonable size include Qaran, Mustaqbal, Global Money Transfer and Kaah.

beyond – employing over 1,000 people. Amal has invested considerably in property in Somalia and elsewhere, building four ‘Amal Plaza’ shopping malls in Mogadishu, Galkayo, Nairobi, and South Africa.

It should be noted that the three systems described – franco valuta, xawilaad, and specialized money transmitters – are all popularly referred to in Somali as xawilaad and overlap in some respects. While the FV system generally required the shipment and sale of goods before recipients were paid, some traders in certain circumstances offered immediate payment. While xawilaad operators and money transmitters were able to make immediate payments, subsequently debts are often still settled by importing goods to sell in Somalia. Although the modern Somali transmitter is more centralized in terms of information and value flow, in the early stages of transition many money transmitters are basically a loose confederation of agents operating bilaterally and multilaterally, under the same brand umbrella, rather than a centralized corporate organization.

Navigating risk in the Somali regions

Diverse governance mechanisms have emerged in the Somali regions since the collapse of the central state – most prominently, the Somaliland government in the north-west, the regional administration of Puntland in the north-east, and shifting warlord factions, Islamist groups, municipal administrations, and internationally sponsored ‘national’ governments in the south – which provide varying degrees of stability and reach into the lives of the people and the business sector in different ways. In this complex landscape, remittance entrepreneurs combine muscle, political savvy, and the mobilization of traditional social mechanisms to negotiate the threats that they encounter, both internal and external.

On one hand, money transmitters face an internal threat in that agents could run off with large sums of money or otherwise undermine the company’s operations. Money transmitters tend initially to recruit agents through their clan networks, which helps ensure loyalty among staff and customers. As a former employee in Nairobi put it: ‘If you go to Kaah, who are working there? The Ogaden. And who is working for Amal? The majority is Majerteen. And who is working for Dahabshiil? . . . If you have your own business, you bring your cousin, your uncle . . . members of my family first, and then my community. That’s our way of helping each other.’ But this is neither a necessary nor a sufficient criterion. Agents also need to be reliable, of good character, with good contacts in the relevant community.

and some business experience. Most enterprises look for people who are seen as pillars of the community, good Muslims, not qaad chewers (or at least only on Fridays) and not openly political.

While *intra*-clan relations were the basis for the early development of these companies and management of immediate risks, *inter*-clan relations – with new agents and customers – have proved essential for their expansion and further profit. These high levels of economic collaboration and partnership across clan lines – also reflected in other business sectors – contrast with the chronic problems in the political realm. The larger enterprises deliberately diversified their major shareholders, agent networks and customer bases to reach new areas and clientèle. For example, although Dahabshiil’s proprietor is Habar Ja’lo from Somaliland, the company’s regional office in Mogadishu is managed by a prominent Hawiye businessman, who in turn manages networks which include agents of various local clans. Social and financial guarantees are also often put in place, particularly with agents from other clans, underwritten by *xeer*, or Somali customary law. They often ask for references from clan elders, described by one manager as ‘like a credit check’, and sometimes have the property of prospective agents valued. To start a business, the agent must have stand-by cash, which may be provided by the individual (often with the support of the extended family) or the company. In the event of difficulties, individuals can usually be traced through their clan.

Thus money transmitters are effectively using *xeer* (customary law) to underwrite their contracts and arbitrate any disputes arising, illustrating the old adage that the more an economy is freed from state influence, the more it depends on social ties. It is important to emphasize that resorting to *xeer* does not necessarily imply that the economy turned inwards on clan communities – rather, in order to expand, it was necessary for the companies to work across clan lines, reflecting the strength of weak ties for economic advancement. Throughout the Somali economy, such mechanisms allow economic actors to transact with reasonable confidence in an insecure environment. For example, the role of the pre-colonial *abbaan* (respected individuals who guaranteed safe passage for traders and their caravans through their sub-clan’s area) re-emerged to facilitate trade across volatile areas, and Shari’a courts initially emerged in Mogadishu in part to deal with commercial disputes, sponsored by the business community.

Money transmitters also confront external threats. Their premises carry a lot of cash and are vulnerable to armed robbery or political interference. According to one manager, speaking at a conference sponsored by the United Nations Development Programme (UNDP): ‘Politically Somalia is a minefield, where remittance operators have to tread carefully. Even in my speech I have to be careful lest I offend someone.’ Where necessary the company pays armed guards to protect their premises, with particularly heavy security in Mogadishu. But, as another manager put it, ‘If you have three lightly armed technicals, the local warlord has fifteen.’ Muscle is not enough.

Few managers are willing to discuss in any detail the kinds of accommodations reached between local agent networks and armed political actors, over matters like protection, taxes, and the use of their services. Money transmitters are able to count on significant local solidarity because they provide a service on which many depend, but must be careful to work with respected local people and preserve good relations with local elders. Their business is caught up in complex ways in Somali politics, despite systematic rhetorical distancing in public by senior management. There are many examples of this. In Somaliland, the government collects some tax revenue from money transmitters, and on occasion persuades them to donate to public projects and loan funds to government ministries. The Islamic Courts Union was popular with the business community, and there were allegations in 2006 that particular transmitters had diverted funds in its direction, relayed large diaspora donations, and made donations of military hardware. In 2007 there were reports of the Transitional Federal Government (TFG) making demands on money transmitters and trying to impose tax and licence fees. In March 2009, the extremist opposition forces controlling Kismayo closed seven money transfer offices in the city in retaliation for their refusal to pay funds into the authorities’ coffers. Navigating shifting landscapes of governance and violence requires considerable political skill. For example, under Dahabshiil’s contract with UNDP, the company facilitated the payment of TFG officials and much of the civil service during 2007–8, but also

29. Specifically, in mid-2007, a group of TFG ministers demanded that remittance companies collect $1 million each month in taxes from migrants’ transfers: it is thought that one-off payments were made by the remittance companies by way of compromise. Phone consultations, technical adviser and NGO worker, London and Nairobi, July 2008.
had agents in the large parts of Mogadishu predominantly in the hands of the insurgents, testifying to the localized nature of agents’ community and security relations.31

Many commentators have noted that the Somali civil war ironically resembled, in its outcomes, a radical structural adjustment programme: it entirely freed the economy from state regulation – liberalizing foreign trade, freeing exchange rates, eliminating subsidies, destroying the public sector, and privatizing parastatals. But as the account above demonstrates, market forces unfettered by the dismantling of the state were rapidly captured by new forms of socio-political authority as the conflict forged new forms of privilege and rights to wealth, reconfiguring patterns of predation and protectionism in the stateless setting.32 The managers of the major Somali money transmitters are no barefoot capitalists – they are distinctly well-shod entrepreneurs, many from well-known pre-war business dynasties, with political savvy and substantial economic clout. Nor are they the classic conflict profiteers, trading high-value commodities, who have featured prominently in recent analysis of war economies and incentives for violence.33 The bulk of the money transmitters’ business deals in the steady rhythm of small family transfers, requiring the cultivation of considerable trust with their many customers and agents, relieving suffering and furnishing livelihoods.34

The war on terror targets ‘dirty money’

By shutting these networks down, we disrupt the murderers’ work. Today’s action interrupts Al Qaeda’s communications; it blocks an important source of funds. It provides us with valuable information and sends a clear message to global financial institutions: you are with us or you are with the terrorists. And if you’re with the terrorists, you will face the consequences. We fight an enemy who hides in caves in Afghanistan, and in the shadows within our own society. It’s an enemy who can only survive in darkness. Today, we’ve taken another important action to expose the enemy to the light and to disrupt its ability to threaten America and innocent life.35

So said President Bush as he fired the opening shot in the financial war on terror against Al-Barakaat, the largest money transmitter in Somalia, sending shockwaves through the Somali economy. In 2001, Al-Barakaat was a highly successful Somali business empire. Its owner, Ahmed Ali Jimale, had worked for Citibank in Saudi Arabia and then managed the money

31. It remains to be seen how the situation will develop now the former moderate leader of the Islamic Courts, Sharif Shiekh Ahmed, has been elected President.
transfer operations in Jeddah of a rich Mogadishu trader before establishing Al-Barakaat. It soon became the largest Somali money transmitter, reaching into many parts of Somalia and diaspora communities. The enterprise grew rapidly into a large conglomerate, with numerous linked companies and investments, from telecoms to a drinks factory.

In the late 1990s, US intelligence began to draw links between Al-Barakaat, the Somali Islamist group Al Ithihaad and Osama bin Laden. Some sources claimed that bin Laden invested heavily in the enterprise and remained a silent partner; Jimale managed bin Laden’s finances and moved money for him; and the enterprise provided protection for bin Laden’s operatives when they visited Mogadishu. Less than a month after 9/11, the US government designated the company as a terrorist-related organization, claiming that $25 million was skimmed from the company for terrorist operations and that Jimale was a ‘friend and supporter’ of bin Laden. Reactions around the world were swift, with all the key countries in Al-Barakaat’s network freezing its bank accounts. The United Nations Security Council added Al-Barakaat to its list of suspected terrorist supporters.

Although the US executive’s power to designate Al-Barakaat as connected to terrorist activity was relatively free from judicial review, other countries (particularly Canada and Sweden) demanded substantiation of the charges. By August 2002, with no evidence forthcoming, the company was taken off the list. With hindsight, the 9/11 Commission found that the designation of Al-Barakaat and others had been driven by the perceived need to show the world that the US was serious about its financial ‘war on terror’, and that the evidence against Al-Barakaat was in fact quite weak – in the words of a Treasury official, ‘we were so forward leaning we almost fell on our face’. In the end, Al-Barakaat agents were actually only charged in court with undertaking money transfer informally, plus one case of low-level welfare fraud in Minneapolis.

The particular drama of Al-Barakaat unfolded in the wider context of increasing financial regulation. There are important reasons for states to regulate their financial sectors – as a matter of macro-economic policy, to maintain confidence in the financial sector by preventing criminal use and money laundering, and to protect customers from losses through fraud and bankruptcy. Despite tendencies towards the deregulation of the financial sector, after 9/11 the drive of powerful states to regulate some global financial flows was substantially reinvigorated. In 2001, the Financial

37. 9/11 Commission, ‘Monograph on Terrorist Financing’, p. 79.
38. For example, drugs smuggling, illegal arms sales, tax evasion, funding crime.
Action Task Force (FATF), which spearheads international efforts to prevent criminal use of financial systems, issued a set of ‘Special Recommendations on Terrorist Financing’, including recommendations relating to ‘alternative remittance’ – non-bank services – which exhort service providers to ‘know your customer’ and ‘control your business’ in particular ways. *Hawala* dealers raised particular concerns among law enforcers, who emphasized that many operated without appropriate licences, used techniques that infringe state regulations (such as over- and under-invoicing trade shipments), and did not keep the kind of records that would provide a paper trail for investigators.\(^{39}\) Although the FATF’s recommendations are technically soft law, they have considerable ‘teeth’ due to the political and economic pressures that can be exerted on non-complying countries. Any financial institution doing business with US financial institutions – a vast number, given the fact that the US dollar is a global medium of exchange – is expected to uphold the international standards.\(^{40}\) States around the world began to enforce existing financial regulations more vigorously and impose new regulations on money transfer activities.

While preventing the use of money transfer systems for destructive purposes is an entirely legitimate goal, these regulatory developments have come in for considerable criticism. The noted transnational crime expert Nikos Passas claimed that the US was ‘fighting terror with error’,\(^{41}\) and that the heavy regulation of alternative money transfer channels has been misguided (given the lack of evidence linking informal value transfer to terrorist operations), counter-productive (driving legitimate businesses underground where they may be more vulnerable to abuse) and damaging to innocent parties (as rising costs of compliance can reduce competition or be passed on to customers).\(^{42}\) According to Passas, a range of actors – migrants, the private sector, law enforcement and regulators – are all inconvenienced by this ‘fact-free policy making process’. Fears that over-zealous and blunt financial regulation hinders legitimate flows to migrants’ families are prompting calls for more risk-based approaches, ensuring that measures to combat crime are commensurate to the risks posed by particular transactions and systems, taking into account the socio-economic context.\(^{43}\)

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39. Despite evidence of substantial record-keeping in some cases – see Ballard (2005).
42. The bulk of transactions went through formal banks, credit card accounts, and wire transfers run by US and British institutions. The Madrid bombers did not use *hawala* for their operation either (although ironically they did use it to remit money to family members in Africa). Passas’s interviews suggest that even if the Special Recommendations had been implemented prior to 9/11 this would not have red-flagged the hijackers’ transactions.
Meanwhile, customer protection – so high on the agenda amidst the current turbulence in the global banking sector – barely featured in post 9/11 debates about migrants’ money transfer mechanisms.

Central to the way the Somali money transmitters have been viewed by policy makers is their frequent but problematic description as ‘informal hawala’. The standard definition of informality is economic activity occurring beyond state regulation. It can be debated to what extent the term informal is meaningful in the Somali context, where a unitary and independent state was short-lived and unable to audit and regulate most economic activity, and where now multiple political dispensations vie for sovereignty, reaching into business sectors in diverse ways. Similarly, it is debatable to what extent economic activity may be described as informal when the state does not chose to regulate a particular activity, as was the case in some of the financial jurisdictions where the Somali transmitters operated prior to 9/11. Meanwhile, formal/informal boundaries can shift over space, as a money transfer transaction crosses jurisdictions. Formal/informal boundaries also shift over time: as regulations change, and as money transfer systems manoeuvre in relation to regulations.

The label hawala also deserves reconsideration. As already noted, major contemporary Somali transmitters differ substantially from ‘classic hawala’ in their more centralized structure, information flow and value flow, exclusive arrangements with agents, and use of the formal financial system. Suspicion of hawala echoes a contemporary tendency to elide the informal and illicit in analysis of African contexts.44 Prior to 9/11 in many financial jurisdictions, law enforcers distinguished between ‘white hawala’ (legitimate transfers) and ‘black hawala’ (transfers considered illegitimate in most jurisdictions, for example for narcotics trafficking or fraud).45 But since 9/11, hawala was often presented in the media, financial and law enforcement worlds as at best vulnerable to use for illegitimate purposes, and at worst expressly designed for illegitimate purposes.46 The semi-criminalization of small-scale money transmission rebounds negatively on immigrant communities like the Somalis for whom these systems offer the most – even the only – affordable and reliable way to send money home.

Of course, from the Somali perspective, the West’s efforts to regulate money transfer infrastructure are rich in geopolitical ironies. Warlords who terrorized the civilian population of Mogadishu for years used a wide range of money transmission mechanisms with no call for sanction on service

44. Meagher, ‘A back door to globalisation?’.
46. While the first claim seems reasonable in some cases, the latter is contradicted by the historical evidence.
providers from the international community. In many ways the Somali operator was a soft target: it seems unlikely that the US would have designated money transmission giants such as MoneyGram or Western Union, let alone Swiss banks renowned for dealing with ‘sensitive’ clients, on such limited evidence as appears to have been available in the Al-Barakaat case. More broadly, concerns about the threat to global stability posed by ethnic niche money transmitters post-9/11 arguably pale into relative insignificance compared with the threat associated with the corporate banking mismanagement under deregulation revealed in 2008.

**The sector responds**

A complex series of adaptations ensued. Al-Barakaat’s closure meant that some remittances and deposits were lost – reportedly only around 24 percent of the deposits in Somalia and money in process were repaid. There was undoubtedly short-term hardship in locations where Al-Barakaat was the main operator, because it was harder to get remittances to people in Somalia. The price of sending money rose. Moreover, because the foreign exchange rate for the Somali and Somaliland shilling is market-driven, the lesser inflow of remittances is thought to have contributed (alongside the second Saudi livestock import ban and, in the south, a massive injection of counterfeit Somali shilling banknotes) to the sharp drop in the value of both currencies against the dollar in 2000–1. Arrests of agents and branch closures prompted fears that other companies would also close. However, the economic disaster anticipated by some did not ensue, largely due to the adaptive response of the other enterprises. In the wake of Al-Barakaat’s demise, there was a proliferation of smaller companies as parts of Barakaat’s networks were reconstituted and new actors sought out opportunities, and an expansion of larger enterprises which had weathered the storm (reportedly Dahabshiil’s monthly turnover went up by 30 percent).

The extent to which international norms were translated into national regulation varied across countries, as did the impact of national regulatory changes on commercial realities for money transmitters, with considerable contrasts even between US states and within the EU. In some countries, money transfer licensing requirements – for example, fees, capital requirements, bank guarantees, scrutiny of staff and their qualifications, and

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47. Indeed, some of these very warlords were actively sponsored by the US in an attempt to eliminate the Islamic Courts Union. Cedric Barnes and Harun Hassan, ‘The rise and fall of Mogadishu’s Islamic Courts’, *Journal of Eastern African Studies* 1, 2 (2007), pp. 151–60.


49. Mark Bradbury, ‘Somalia: the aftermath of September 11th and the war on terrorism’ (Report to Oxfam, 2002).

50. Omer, ‘Supporting systems’.

inspection regimes – proved prohibitively high for some smaller national or ethnic niche operators, which closed or ‘disappeared’. In Kenya, officially only banks or transmitters in partnership with banks are licensed to transfer money, but many Somali enterprises continued their operations, some totally informally, others under a foreign exchange licence while also transferring money on the side. In other countries, regulatory requirements were relatively ‘light touch’ – in the UK, UAE, and Canada it seems most Somali agents registered.52 There was the additional threat from the money transmitters’ banks which, also exhorted by regulators to ‘know their customers’, began to see money transmitters as high-risk customers and closed their accounts, crippling the businesses involved.

Overall, where regulatory environments and market size permit, there has been a growing ‘professionalization’ and development of the larger enterprises. As well as the regulatory pressure, economic success may have encouraged formalization.53 Complying with new regulations changed the way that the enterprises operated. Some had to centralize their operations more in order to prove that they could ‘control their business’. They had to check for suspicious transactions and people. They had to train agents to ask for identification when necessary, which for cultural reasons could be difficult:

Asking for personal information beyond what they consider to be absolutely necessary in any transaction or relationship is interpreted as questioning one’s integrity . . . agents have . . . to deal with the question, ‘You know me, why do you need my address or ID?’54

The privileging of state-based tools of ascertaining the identity of customers – ID cards and passports – can seem ironic to Somalis. For people from a country with ‘the dodgiest passport in the world’,55 ascertaining clan lineage seems a more reliable and effective identity check. Some companies introduced photo ID cards to speed up transactions with regular customers. Some enterprises bought software incorporating the UN lists of blacklisted individuals with whom financial institutions are not allowed to transact, but several managers found that as listed individuals have very common Muslim names, a considerable proportion of Somali transactions are held up by the software.

Against this background, confronting new or reinforced regulatory strictures prompted some enterprises to a critical assessment of their business

strategy, again turning crisis into an opportunity. Indeed, the growth of many of the enterprises was vertiginously rapid and unplanned, based on short-term approaches aimed at rapid accumulation, with little long-term strategic vision – a close observer described them as ‘multinational companies with a kiosk mentality’. In recent years, various service improvements have been introduced, including real time payments technology, credit and debit card payments, online payments and text messaging. Some strategic partnerships were developed, and some moved beyond the traditional Somali market to serve other African communities. Many money transmitters also offer limited banking services in the Somali regions, and in exchange for a fee will open a non-interest-bearing deposit account with a chequebook or passbook, and allow funds to be withdrawn at other branches, or transferred for collection abroad. These banking services are largely unregulated: the Puntland administration and the Transitional Federal Government in the south do not have the capacity and the Somaliland government has not yet passed the much-anticipated Private Banking Law. Amal and Dahabshiil have also been exploring possibilities of establishing banks in jurisdictions outside Somalia, which requires substantial collateral and changes in ownership and management structures.

Thrust into the media spotlight, the Somali enterprises were initially rather slow to combat their negative image. But as time went on, they began to emphasize their role as, in the words of one manager, ‘a cash business where the need for it is greatest and the law to protect it is smallest’. Their statements highlighted their role as employers, investors, and socially responsible corporate actors (giving donations for relief and development projects and discounted commission on transfers to disaster-affected areas). They recognized the damage inflicted by the term *hawala* and began to reject it in favour of terms like ‘remittance companies’ – as one manager put it, ‘We are far more advanced than *hawalas*.’

International intervention has accentuated countervailing tendencies of the Somali money transfer sector to fragment and consolidate. The low overheads required meant that throughout the 1990s small operators floated in and out of the market. Al-Barakaat’s economies of scale allowed it to dominate, and other players competed in clan and regional niches rather than on fees. The fall of Al-Barakaat allowed the remaining large

57. For example, Dahabshiil’s agreements with Travelex branches and EcoBank.
58. Although this does not seem to deter Dahabshiil’s several thousand account holders in Hargeisa, and has not stopped Dahabshiil starting building work on its bank on a large plot in the city centre.
60. Speech by money transmitter manager, the UNDP/World Bank Conference on Somali Remittances, Washington DC, 1–2 December 2005.
enterprises – Dahabshiil, Amal, and Dalsan – to secure large market shares, helped somewhat by customer preferences for well-established companies. There was also further proliferation of small operators, which larger companies complained offered low rates because they did not comply with regulation. As the manager of a major transmitter put it: ‘These small companies usually fall within two to three years, but meanwhile they can give us a bit of a hard time!’ The 2006 collapse of Dalsan, a large money transmitter, ostensibly due to mismanagement of funds, appeared to further consolidate the market in the hands of the larger players, although relatively new entrant Qaraan absorbed several older companies, taking a prominent place.

How the xawilaad enterprises responded to intervention might be explained by their hybrid organizational structures: a central hierarchical hub relying on extensive networks of agents. They exhibit some of the vulnerabilities and strengths of networks. For example, Al-Barakaat’s network was easily disrupted and decomposed in adverse circumstances, but the individual nodes (agents) survived and adapted. Other enterprises were able to extend their agent base rapidly to reach Al-Barakaat’s former customers – the epitome of the fluid, adaptive response attributed to networked forms of organization.61 Similarly, the fact that agents in some countries had to close did not devastate the companies: they adapted and consolidated their activities in more propitious environments. At the same time money transmitters exhibit some of the vulnerabilities and the strengths of more hierarchical forms of organization. Al-Barakaat crumbled when its central hub was attacked – when the UAE bank account was frozen – which would not have been possible if it had been transacting and settling debts bilaterally or multilaterally like a ‘classic hawala’. But where the central hub remains intact – for example, in the case of Dahabshiil, which was able to keep its accounts open – the enterprise is able to weather adversity.

A humanitarian defence: from ‘lifeline’ to ‘development capital’?

Against the background of the economic downturn resulting from Saudi Arabia’s ban on livestock imports, realizing the importance of remittances in the communities in which they were working, and fearful that further disruption could precipitate total economic collapse, the UN and the aid industry mounted a humanitarian defence of the remittance ‘lifeline’. Other motivations included the fact that the aid industry itself needed xawilaad to pay for relief, services, and personnel in Somalia, and the opportunity to put Somalia’s problems more generally in the media spotlight.

The campaign was spearheaded by UNDP, which issued dire warnings to media and governments regarding the potential consequences of further closures, insistently referring to the enterprises as ‘remittance companies’ or ‘Somali financial services’, emphasizing their migration-related nature and national-level importance. UNDP intervened when specific companies were threatened with the closure of their bank accounts; facilitated the establishment of two industry associations; held meetings and trainings to encourage compliance; and organized two major conferences bringing together slightly bemused regulators and rather defensive Somali businesspeople. This also allowed UNDP to establish strategic relationships with these major private sector actors, who were more disposed to engage – in a time of crisis – than they might otherwise have been.

This ‘humanitarian defence’ had a logic and mode of engagement distinct from the financial war on terror, using the media to raise awareness and emphasizing the need for dialogue, cooperation, and training. Yet at this stage the aid agencies’ engagement was essentially reactive, a defence of the infrastructure aimed at mitigating the consequences of the financial war on terror on ordinary Somalis. In many ways the humanitarian defence opposed the manner of the intervention of the financial war on terror, but not its overarching objective, supporting efforts to make the money transmitters more hierarchical, centralized, and compliant.

The ‘lifeline’ seemingly secured, some development actors began to see Somali money transfer as potential ‘development capital’. There are three dimensions to this. First, the aid industry continued to rely on money transmitters as service providers – to transfer staff salaries and project money, and deposit local funds. Dalsan, Dahabshiil, and Amal worked with international NGOs such as Oxfam to help deliver cash relief or cash-for-work to project communities. Some international NGOs, faced with mounting insecurity and the assassinations of Somali NGO partner staff in the southern regions, have even begun to ask whether money transmitters, which negotiated the insecure environment more successfully, might take on more extended roles in aid delivery.

Second, money transmitters became potential development ‘partners’. In the context of growing international interest in the peace-building potential of the private sector, some development actors were reconceptualizing Somali business communities (long the source of Somalia’s main

62. Catalysing any kind of dialogue was a serious achievement given the clan, regional, and business rivalries of many of the company managers, but cooperation was bedevilled by mutual suspicion regarding political influence and potentially monopolistic banking aspirations of larger companies.

There was a flurry of analysis accompanying the World Bank’s re-engagement with Somalia, a key plank of which involves partnership with the private sector, and which pinpointed remittances as a major factor sustaining economic growth. UNDP’s engagement with money transmitters following 9/11 developed into longer-term efforts to support compliance, industry cooperation, development of regulation in Somalia, and the incorporation of new technology.

Third, against the background of booming international interest in remittances as potential drivers of development in migrants’ countries of origin, international agencies began to realize the significance of remittances in the Somali regions and ask whether there were ways to leverage Somali remittances to achieve wider benefits. People are increasingly asking how to facilitate increased investment in local income- and employment-generating activities, possibly through more institutionalized financial intermediation of the funds, by linking remitting to deposit, credit, and investment facilities, including microfinance. Diaspora philanthropy is considerable and growing, delivering schools, hospitals, and other community projects throughout the Somali regions: donors and Western NGOs began to ask whether they could engage with the diaspora in ways that might enhance the impact of these interventions. The conflict prompted a brain drain on a massive scale, so knowledge transfer has been another area of interest. The appetite to engage the diaspora is reflected in the ‘diaspora consultations’ organized by the UK’s Department for International Development (DfID) in 2008, and in the series of open ‘letters to the diaspora’ from the Secretary-General’s Special Representative to Somalia, Ahmedou Ould-Abdallah. The money transfer sector would seem to be key in efforts to engage with the Somali diaspora and remittances.

Yet this tentative courtship is likely to encounter considerable obstacles. On one hand, for money transmitters, there is the tarnished reputation of the aid industry, the politicized nature of aid in troubled settings, and the importance of focusing on their core activities, which make them wary of cooperation. On the other hand, international aid agencies retain a long-standing suspicion of the complex politics of business in Somalia, and are

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66. Although in 2008 insider allegations of misconduct sparked an investigation into these activities, and UNDP has reoriented its programme towards promoting an inclusive financial sector in Somalia.
67. For example, UNDP’s Qualified Expatriate Somali Technical Support project.
bound by particular bureaucratic procedures and standards that hinder potential collaboration.

Concluding reflections

In 2008, Somalia hit international headlines for drought, piracy, and suicide bombings – a potent combination of disaster, criminality, and extremism. Against this background, it is important not to lose sight of the more banal, routine dimensions of life in the Somali regions, like remittances and the financial infrastructure that channels them. The Somali money transfer story also has wider relevance for how we think about remittances, shadow and conflict economies, and the international response.

First, this analysis of Somali xawilaad points to the significance of the remittance business. Existing remittance research tends to focus on the economic impact of funds received in the country of origin, usually relying on macro-economic or household survey data. But remittances are not just household income: they are embedded in and mediated by complex social relations and institutions. In Africa, modes of intermediation are diverse: for example, Somali arrangements are different and considerably more sophisticated than those used in Darfur. We sometimes forget that remittances are not simply a source of ‘development finance’, but also a multi-billion dollar global business – in which many intermediaries compete. Who makes money (global banking corporations? indigenous transnational enterprises? bus drivers?) and how are part of the picture when it comes to understanding the role of migration and remittances in processes of development and change.

Second, the Somali evidence points to the complexities that belie common simplifications of the shadow economy as local survival capitalism, or as global conflict profiteering. In the interstices of state disruption and globalization, and in the shadow of violence and political uncertainty, adaptive commercial actors and forms have flourished. Crisis, while devastating lives, also presents opportunities – and not only for those preying on civilians and plundering resources under cover of war. Xawilaad is an illuminating example that defies pithy one-line definitions. It is indeed a matter of local survival, facilitating infusions of funds on which millions depend, saving lives, and furnishing modest livelihoods, while relying on the careful leverage of intricate social ties in its organizational logic. But it is also a profitable industry, rapidly assimilating technological advances, lining the pockets of a transnational elite, becoming an integral part of the emerging political

68. See also Ballard, ‘Coalitions of reciprocity’.
69. World Bank, Global Economic Prospects, for a review of key studies.
complexes that it navigates in the Somali regions. It is more formal than often acknowledged. The will to govern financial transfers varies – in intention and depth, and across space and time. From the point of view of state agencies many elements of Somali money transfer infrastructure are regulated, compliant, and legible, while other elements are largely extra-state and opaque. Moreover, far from being just an intriguing financial mechanism used by a small number of migrants, *xawilaad* is a phenomenon of considerable scale and significance. In the absence of a banking system, it is this infrastructure that articulates the economic relationships between the Somali regions and the rest of the world – mediating remittances, trade, investment, aid, and political finance.

Finally, the Somali money transfer story raises questions about international responses to real processes of change under way in conflict-affected Africa. The vigour and success of the money transfer business sits uneasily beside common tropes of collapsed and conflict-ridden territories as a ‘vacuum’ or a ‘black hole’, and academic analyses of internal conflict as ‘development in reverse’.71 ‘Anomalies’ like *xawilaad* may be seen as evidence of reflexive modernity: ‘Actual development is not the result of official development efforts: it exists despite them.’72 The aspirations of official development planning in many parts of post-colonial Africa have been constantly confounded. Outside interventions have often played a significant role in laying the groundwork for conflict and state collapse. In Somalia, Cold War military sponsorship (and its switching and withdrawal), international aid (and its gluts and stoppages), and neo-liberal reforms (and their misconceptions) helped to destabilize the state, and international intervention has conspicuously failed to resolve the conflict in the two decades since it began.73 But beyond the piles of failed blueprints for change, life in the Somali regions goes on, witness to various forms of social, economic, and political innovation and change. The international response to Somali money transfer infrastructure in some ways demonstrates a deep ambivalence on the part of the international community to these processes. It has both scrutinized *xawilaad* for what has been defined as ‘dirty money’ within the specific geopolitics of the war on terror, trying to bring the sector into the regulatory fold; and at the same time embraced it as a lifeline and even a source of potential development capital. Arguably both responses are part of states’ struggle to make complex social realities legible.74 Both these struggles to grapple and control, and processes of adaptation and innovation, are set to continue in the years to come.