

# PDRCTalks Report



Aug 2019

## PDRCTalks IV Somali Monetary Systems: Challenges and Way Forward

Guest Speaker:  
Bashir Isse Ali



## Background to PDRCTalks

In March 2019, the Puntland Development and Research Centre (PDRC) initiated a monthly event called PDRCTalks. This event is a new initiative to spread ideas, messages, and awareness on issues related to the betterment of Somalia. These issues cover topics ranging from governance, democratization, peace, and development, which are the key focus areas of PDRC.

PDRCTalks is an interactive platform in which prominent Somali scholars, veteran politicians, and retired civil servants are hosted once in every month to serve as guest speakers and to deliver an expert presentation at a uniquely themed talk-event at PDRC. PDRCTalks aim to spark conversation within the Somali community and through this useful dialogue, change the attitudes and lives of Somalis. Social media is utilized to spread the messages throughout Somali communities living in the diaspora and within the country, through live streams. PDRCTalks has been received well and has featured prominent figures in Somali society to bring to the fore a multi-faceted number of topics in politics, economics, social issues as well as cultural themes.

PDRCTalks is a value-addition component to PDRC's vision as a solutions-oriented organization that prides itself on offering useful tools to bring about peaceful coexistence and economic development by all Somalis.

### About PDRCTalks 4

The fourth PDRCTalks event themed on the "Somali Monetary Systems: Challenges and Way Forward" took place at PDRC on the night of August 25th with Bashir Isse Ali as the main Guest Speaker.

Bashir Isse Ali is a Somali banker and served as the CEO of the Commercial and Savings Bank of Somalia. From 1981 to 1988, he acted as the Deputy Governor of the Central Bank of Somalia (CBS), where he helped the Governor establish and formulate the monetary authority's policies and strategies. During the Transitional Federal Government, from 2006 to 2010, Bashir Isse served as the Governor, where he successfully re-established the bank after it had closed down during the civil war. He resigned after disagreements with the Finance Minister but was later re-appointed from 2014 to 2019.

Generally, financial institutions play a vital role in economic growth, making them one of the biggest

priorities. The financial institution here refers to the combination of banks, "Hawala" and microfinance institutions, which all play a vital role in economic development.

It is argued that the disintegration of the financial system into a deep crisis led to the collapse of the Somali state, coupled with the complicity of corrupt officials, most of the daily operations of the banking system fell to the black market (Mubarak 1997: 2028). Somalis have been focusing on rebuilding the state through various mechanisms, mostly focusing on political reconciliation. It is important to note that fixing the economic and financial crisis of Somalia is of utmost significance, given the country's agreed-upon system, as well as the issues of poverty, lack of employment, lack of investment, and a coherent monetary system.

It is against this backdrop that Puntland Development and Research Center organized the fourth PDRCTalks themed "Somali Monetary Systems: Challenges and Way Forward," an event intended to increase public knowledge as well as discuss possible solutions for the monetary challenges of Somalia.

### Organization of the event

The fourth PDRCTalks event was held on the 25th of August 2019 at PDRC, Garowe, and the Puntland State of Somalia. The evening event commenced with opening speeches from the Mayor of Garowe, Minister of Environment and PDRC's Executive Director, followed by a keynote presentation by the guest speaker Bashir Isse Ali, Panel Discussion, Contributors, Q&A, and interactions. The event was streamed live on Facebook with live updates on Twitter to reach a cross-section of audiences all over the world.

The event brought together 200 participants that included policy makers and government officials such as the Minister of Environment, Agriculture and Irrigation, Ismail Diriye Gamadiid, Mayor of Garowe Ahmed Bare, former Somali ambassador to Kenya Mohamed Ali Americo, Civil Society Organizations such as women and youth groups, business communities, academic institutions, and the media. Financial institutions, including private banks, the bank of Puntland, and the Hawalas, were present as contributors. PDRCTalks prides itself on giving ample time to the guest speaker, panelists and contributors, and, most importantly, the audience to exchange ideas learn from each other, and to further deepen their understanding of the subject of discussion.

## Introductory Remarks



The mayor of Garowe Ahmed Bare attended the event as one of the official guests at the PDRC-Talks4. He noted that he was excited to participate in such a significant event dissecting the Somali Monetary system. In his remarks, the mayor stated that one of the major problems facing the Somali Monetary system was the laxity in the implementation of regulations that guided the system. In his final remarks, he noted that the presence of Somali Banker, an expert in his field, was of great significance as this would allow the participants to not only hear from the expert but agree on the way forward as a nation.



Puntland's Minister of Environment, Ismail Diriye Gamaadiid, who officially opened the event, strongly advised the participants to take advantage of the talks since they were privileged to have in their midst Bashir Isse 'Veteran Banker'. He reiterated that this was an excellent opportunity for the audience to get an insight into the intricacies of the Somali banking system and how it operates.

## Keynote Speech



The former governor of Somali's Central Bank, Bashir Isse Ali, who was the guest speaker of PDRCTalks 4, thanked PDRC staff on the well-prepared event and appreciated the participants on their eagerness to learn from his 50 years' experience in the Somali banking system. His public lecture presentation was divided into three sections; the History of Somali Central Bank, The challenges, and Way forward.

Starting with the history of the Central Bank of Somalia, according to Bashir the bank was established immediately after independence, as autonomous institution led by its Board of Directors and whose functions mainly included protection of the value of the national currency, issuance of legal tender, the regulation and supervision of the Commercial Banks and other financial entities, the payment system, the county's fiscal agent and banker of the Government.

He further highlighted that the first post-colonial series of Somali currency was issued in 1962, followed by an ever-increasing number of newer issues and denominations in tandem with the modest growth of the economy and public needs. At the onset, it was the well regulated and very responsible management of the monetary policy, which kept both inflation and Somali Shilling- US Dollar exchange rates at very stable and sound levels. A combination of wise monetary and fiscal policies was the root of this success.

However, in the mid-1970s, there were dramatic changes and deterioration of Somali's fiscal system, which was exacerbated by the war with Ethiopia in 1977. Somali's financial system was marred by excessive deficit financing due to the

unbalanced government budget and irresponsible limitless credit by the commercial & Savings Bank of Somalia to the private sector, which fueled unprecedented levels of inflation and depreciation of the Somali Shilling. He added that this stifled the country's economic growth and eroded the public's confidence and, perhaps, it is not a sheer exaggeration to say that many people believed that inflation was one of the factors that accelerated the process of the civil unrest.

Bashir Isse further mentioned that in January 2007, Somalia's newly established Transitional Federal Government re-established the Central Bank of Somalia. The Central bank is now in the process of reclaiming its functions of both formulating and implementing monetary policy. It should be noted that the revival of the Central Bank isn't a walk in the park. Hiring and retaining highly skilled professionals and motivating them in the present security and economic environment, rebuilding core banking systems and procedures, reopening the contacts and relations with the former correspondent banks, researching on the national economy, formalizing the financial system and supervising it, laying the ground work for executing monetary reform and advising the Government on fiscal and economic policy are some of the core tasks that need to be done in these circumstances. The Bank is overwhelmingly embroiled in tackling these issues and many related others in its short and medium strategic plan. Implementing priorities and sequencing them is very important, and the bank goes consistently with that fashion in order not to disrupt the ongoing normal processes.

Bashir's speech then focused on the current challenges facing the Central Bank of Somalia and the financial system as a whole. The challenges were summarized as the following:

### The illegal currency printing

The period from the collapse of the government in December 1990 until the end of the Transitional Governments represents the unscrupulous era when War Lords, Regional Entities, Transitional Governments, and greedy business people all competed to print locally or import billions of

banknotes of the 1000 old Somali Shillings denomination. It is believed that the total value of this criminal currency printing is close to 1 trillion. While a large portion of the notes is still in circulation, it is essential to note that some of these fake bank-notes are made of ordinary A4 papers that could easily be recognized by the public and subsequently be rejected. Nevertheless, a certain small percentage is presumed to get out of circulation yearly due to wear and tear of the said notes.

The fraudulent currency printing business had spun out of control and, consequently, business people refused to accept Somali Shillings and instead insisted on payment in dollars for all the big transactions. The Somali Shilling was continually losing value, and it became impossible to keep track of the value of the Shilling at any particular time. Besides that, the Somali banknotes are bulky, age quickly, easily decimated, with a high depreciation rate, easily counterfeited, and thus can't meet the main functions of money as an effective and efficient unit of account, store of value or means for deferred payments. There were (and still are) several versions of the same Somali Shillings in circulation, which are all fake.

The continuous illicit banknote printing contributed depreciation of the value of the Somali Shilling to unprecedented levels to between 30 and 40,000 Shillings per US Dollar in 2008. The depreciation reinforced the already ongoing dollarization trend and, coupled with the remittances from the Somali diaspora, foreign grants and proceeds from the local exports there was an influx of dollars pouring into the country which generated considerable foreign exchange to finance the commodity import needs and modest part of the private investment needs.

The excessively centralized socialist economic system in the seventies was partially relaxed in the eighties. Nonetheless, stiff regulations, shortage of products in the market, scarcity of foreign currency, and other needs created the demand for dollars, which was and still is the most convertible and convenient currency widely accept-

ed in the Somali market and its counterparts and trading partners.

With the collapse of the Government in 1991, regulations, licensing needs, foreign exchange, and trade restrictions were no longer the norm. Entrepreneurship, private initiative, and competition dictated the market in Somalia. New entrants in the market took over the export and import business that was previously dominated by inefficient state monopolies. These products included hides and skins, Myrrh, fish, and incense, among others. The unregulated trade increased the influx of exported commodities and supplied the local product with every imaginable product.

The mass exodus due to the civil war created new Somali migrants in every corner of the planet, remitting ever-increasing amounts of foreign exchange in support of families left behind and later for investment and other reasons at home. With a significant reduction of the civil war intensity, Somali expatriates began returning to the country for investment opportunities, which, coupled with modest foreign investment, Aid development projects, and inflow of funds, have helped the Somali shilling regain a part of the lost value.

### Depreciation of the Somali Currency

The first and primary function of the Central Bank is to protect the value of the Somali Shilling and, consequently, to combat inflation. The Bank is not able at this time to come up with or implement any concrete monetary policy as the economy is highly dollarized, with total market-based exchange rates and unlimited national money supply. The government is gradually extending its rule, administration, and control to most parts of the country, but stability, the build-up of efficient and a transparently supervised financial system, investment, and macro-economic performance and data collection have not yet reached the desired levels. All these factors are pre-requisite for the application of any sound monetary policy that should be followed by the eventual national currency printing. So far, the Somali currency has lost its main functions which are:

a. As a store of value: the Somali currency is not trusted; nobody can have confidence in the value of our currency after some time or predict its worth versus other currencies, goods, or commodities. It is impossible to know whether it will maintain its present value over an extended period and act as surety for savings;

b. As a unit of account: money is the universal standard for measuring the relative worth of goods or services as everything is measured in money. In Somalia, the unit of measurement is not the Somali Shilling but the US dollar. If, for instance, you asked for the value of a car or a small piece of land or even one's salary, the answer will be in US dollars, not in Somali Shillings. The de facto unit of account in our country currently is, thus, the US dollar, except for the small transactions.

c. As a medium of exchange: money must satisfy the double coincidence of wants. Our currency does not fulfill this condition, except for the tiny transactions.

The guest speaker, in his conclusion, was very hopeful. He noted that Somalia was recovering from a terrible civil war and economic devastation, and all indications gave bright and encouraging signs of speedy improvement in terms of economic and social development. Re-issuing the national currency is part of the post-conflict recovery initiatives, and a secured and trusted currency is a national demand and vital step to introduce a monetary policy. There is a need for government budget deficit financing, a sound Somali monetary policy, and competent supervision and regulation of the fiscal system by the Central bank. The Central Bank of Somalia is also strengthening its research and data collection department and has established a monetary committee in broader consultation with the critical economic stakeholders for future policy formulations. All precautions and measures should ensure that the lessons learned from the past mistake will not lead to a re-occurrence of similar errors.

## Panel Discussion

The discussion started with 14 minutes' highlights made by two of the panelists; Ahmed Abbas and Ali Haji. Ali, a former Chief Executive Officer of Golis Telecom Somalia, the largest telecom operator in Puntland, spoke about the Mobile Money System and its benefits to the Somali people while Ahmed Abbas, a senior economist, spoke about how money and the government are interlinked. The discussion was participatory, flexible, interactive, and motivated.



Panelists from left to right: Abbas Ahmed Abbas-Economist; Abdinasir Yusuf-Moderator; Bashir Isse Ali- Former Governor of Central Bank of Somalia; Ali Haji Warsame- Financial analyst



Contributors Mohamed Ali-Tawakal Express; Abdirahman Warsame-Dahabshil Bank; Mohamed Said- Amal Bank; Ahmed Abukar Ahmed-Governor of the Bank of Puntland

On the discussion on money, Ali began by saying, "it is essential to note that money includes cash, E-money, and mobile money." It should also be understood under this backdrop that Somalia has been without an effective central government for the last two decades. During the said period, the local currency lost its value, and there was an increase in the printing counterfeit notes leading to the loss of confidence in the Somali shilling, which culminated in the dollarization of the Somalia economy. Unfortunately, he added that the US dollar has limitations as it can't be used everywhere as the local currency, for example, if one wants to buy a cup of which is the equivalent of 0.1 cents it is impossible to use dollar since the lowest unit available in the Somali market is \$1.

Taking us back in 1996, Ali Haji Warsame stated that the telecommunication agencies were established, and they developed Mobile Money as an alternative. "It is a known fact that many people perceive and have this belief that Mobile Money isn't real money, thinking that it can't be an asset, and it isn't safe coupled with the fear that telecommunication companies wouldn't be able to give the depositors their money back in case anything happens'; however Mr. Ali Haji dispelled this misconception and misguided fact, stating that most of the telecommunication companies have back-up assets, which is either Cash or fixed assets. The companies have records of each client's transaction and balance at a particular time and that each company has adequate disposal of cash at hand.

He argued that mobile money is convenient, easy to use, and enables quicker, cheaper, and more reliable money transfers over greater distances. It also charges the least in terms of transaction fees. In turn, this has allowed mobile money users to diversify their informal risk-sharing networks, top-up their airtime, buy competitive data bundles, and draw in a broader network of social support, and finally, mobile money resolved the cash problems that the dollar couldn't because you can buy products worth 0.05cent without having a lot of Somali cash on. Mr. Mohamed Dalmar, a Former banker and Consultant of Amal Express, states "that Somalia is one of the most active mobile money markets with 26% of the population reported to be using mobile money to pay bills, which is the highest in the world, and 32% to send or receive money". It's worth noting that in Somalia, banking, telecommunications, and money transfers are so closely intertwined & cannot be reviewed separately. In concluding his speech, Mr. Ali stated that the Central Bank retains the oversight and regulating role while private banks and mobile money providers are required to have a reliable financial system with audit,

anti-money laundering policies, to avoid any illicit business transactions and also have the “know your Customer” (KYC) policy.

According to Abbas, Somalia’s vision is to have credible Somali currency, and to restore its value will depend on how the government handles the central bank restructuring process. It is critical to understand that money isn’t wealth, but it is used as a measure of its legality and value of the wealth in people’s possession. The only neutral entity that can do this measurement is the government. Therefore, money cannot exist without system of governance; each nation has its flag and its currency.

The Central bank is the only institution with the responsibility to oversee the nation’s monetary system; control monetary policy, which means the liquidity in the financial system to influence the economy towards currency stability, inflation, and employment. To achieve this, Abbas adds, the government is required to control the flow of money, especially money from unauthorized and illegal access otherwise, inflation occurs. He concludes by noting that when a country prints too much money, its value relative to other relative currencies declines, as the supply is higher than the demand, and this was what exactly happened here in Somalia.

## Key Messages

According to Bashir Isse, it is his opinion that private banks are doing good and productive work, while the central bank has been given oversight, supervision, and regulating role in which it is faltering. The IMF, World Bank, and other agencies support the Central Bank in its regulatory role to develop a reliable monetary system in the country. He indicated that the Central Bank hadn’t done everything needed, but most of the regulations have been put in place. He was confident that the Central Bank of Somalia had made some significant accomplishments and that the most important financial institutions in Somalia today are private banks, and the country should acknowledge that regulation of the industry is essential.

Bashir’s view on printing new Somali currency, which started in 2016 is that the cash for printing, which is estimated at USD 400 million is the only thing missing. A participant asked if the local banks could invest and pay that amount. Bashir, in his response, said that the Central Bank had already discussed with some of them, but the Central bank had declined to accept this at the moment, for two reasons. First, they (CBS) are not an individual business, and second, the banks being profit-making institutions would increase the

value of the new currency. Ali Haji argued that printing new Somali currency would take time, given that current government has other priorities including security, financial regulations, control of the country’s economy and that the central bank should have independence, capacity, effective monetary policies, and legal tender and that it should be able to guarantee the users on the validity and legality of the money that is currently in the market.

Ahmed Abukar Ahmed from the Central Bank said that the bank works with both banking and non-banking financial institutions by issuing licenses and providing oversight. The bank uses two laws that are approved by the Somali parliament; The Financial Institutions law and The Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) law. So far, they have licensed ten banks and nine money transfer agencies (Hawalas). Additionally, the central bank has developed up to nine (9) by-laws for regulating the private banks and five (5) regulations for the Hawala. In August 2019, the law governing Mobile Money providing companies was approved, and he hopes that within six months, the bank will register and give licenses to all mobile money providers. He stressed that the Bank is functioning and that it is their second time in Puntland for oversight examination.

In Mohamed Ali’s view, a member of Tawakal express, a credible Somali currency, is a necessity, but it is also essential to acknowledge the role of Hawalas and local banks on the survival of both the lives of the people and their businesses. We should even imagine what would have happened if there were no Hawalas for the last two decades that the nation has been without the central government. However, he strongly agreed that local Somali currency should be printed, and emphasized that the Bank should find a way to mitigate previous problems. Without firm monetary policy and risk mitigation, there would be considerable risk in the printing of new Somali Shillings notes. Abdirahman Warsame from Dahabshil Bank agreed with Mohamed Ali and stressed how the community had significantly benefited from Hawalas and Banks in terms of investment and services more than the profit earned by private banks themselves. These private banks and Hawalas have been working on their own for a long time under challenging circumstances, but currently, the central bank is doing a lot, including licensing, mentoring, and regulating them. He shed light on the role of the central bank, which was getting better with the development of many regulations and concluded by insisting that the most significant issue at present is to have a reliable system

for all.

Former Minister Guraase appreciated the role taken by local banks and Hawalas, noting that they are still needed; nevertheless, he added there should be collaboration and regulation among them and the central bank. In the issue of printing new Somali shillings notes, the government should first establish the amount of currency in the market, how much if it is real and fake. The other question was if the new currency was printed, how much of the people's cash would be compensated? Is it the cost of the new currency or something else? Lastly, he stressed the Central Bank should be run as an independent institution because the country is fragile, and if the bank is politicized everything can easily collapse.

Ali Americo, a former Ambassador, shared his concern on the printing new Somali Shilling; according to him the last time the Minister of Finance 'Abdirahman Bayle' was talking about printing Somali Shilling, which wasn't/ isn't the mandate or responsibility of the ministry. The central bank has the correct statement on printing new currency. He ended with advising the government to separate roles and let the Central Bank carry out its responsibility.

On the question of regulations, Mohamed Siad from Amal Bank reassured everyone that local banks were fully regulated by the central bank while the Mobile Money providers were in the process of being controlled. According to him, the Central Bank is one of the few institutions in the federal government that works effectively. The Central Bank's work is contextualized because all the existing banks and Hawalas were established long before Central Bank was restored in 2012. Additionally, it is good to note that all regulations were developed based on that context and were later harmonized with the input of all stakeholders.

When asked the question, if the Mobile Money could be used in Somali Shillings instead of dollars, Bashir Isse responded that Hormuud Telecommunication Company had already proposed such an idea to the Central Bank, and it was agreed that there is a future possibility of using Somali Shillings in mobile money, but for now the Central Bank had rejected it since there weren't enough Somali Shillings in the Market.

In response to the question of Mobile Money risks, Ali Haji responded that the financial sector is not only the government's mandate; it is broader than that but needs to be regulated, supervised and guided. In his view, Mobile Money risks can be categorized into two: control and reliability. Then there is the issue of less or

no regulation at all since the central bank wasn't operational when they were established.

In response to the question of the relationship between the central bank and state banks, Ahmed Abukar from Central bank responded by saying that even though they are yet to develop Memorandum of Understanding (MOU), the central bank and state banks have a cordial relationship. For example, when the Central Bank wants to visit a state, they inform the State Banks, who, in turn, give the Central Bank the go-ahead or permission. He added that the Central Bank is looking forward to establishing an MOU, and then State Banks will take over the oversight role of the Central Bank in their respective states.

Bashir Isse ended the panel discussion stating that not only ten banks are currently registered and licensed by the central bank; but the Central bank had also deposited USD 1.5 million from each bank, in case something went wrong to secure people's property. There is also a strong relationship between the central bank and the state banks as well as the private banks.

## Open Discussions and Recommendations

Discussions and Q&A sessions between the participants, guest speaker Bashir Isse, panelists, and contributors generated the following recommendations and conditions:

### a. De-Dollarization

Rational economic conditions and realities on the ground were at the root of the Dollarization in the first place. New favorable circumstances that can restore the trust in our national currency are needed before embarking on any meaningful de-dollarization process. The Dollar is convertible, trusted in every corner of the world, and its use in Somalia stopped the depreciation of the Somali shilling and the inflation spiral. It prevented sharp capital flight and helped in the emergence of dollar deposits and savings in the local banks and remittance companies that temporarily filled the vacuum caused by the absence of commercial banks.

Dollarization is well entrenched in the local business systems and daily life activities. It is a condition that has been building up in phases for over two decades and will need sound-based policies, economic and political programs, supporting foreign reserves and favorable terms on the ground to switch to another system. Any hasty change may result in chaos and destabilization of an already fragile economy.



### b. Printing new Somali Currency

Printing new legal tender in Somalia can contribute to modest liquidity in the economy, as a payment system for the smaller transactions, financial inclusion for the many who deal only with local currency, a symbol of national pride, and preventing any further currency counterfeiting and signage for the central bank.

The bitter lesson of the past monetary mismanagement is a living experience that will be avoided, and the printed currency will not be used for deficit financing but mainly to retrieve the fake banknotes in circulation. The excess supply of the printed currency leading to inflation discourages savings, thereby making investible resources scarce and hindering economic growth. Inflation will also deter investment, which will lead to decreased local production and imports above the levels that can be financed by earnings of the country's exports, which will result in an external trade deficit, foreign exchange shortage and less competitiveness with our trading partners.

### c. Mobile Money regulations

It is necessary to develop legal frameworks to administer mobile money payment systems. People have several concerns that need legal protection; those concerns include financial risks, control the regulations of compliance, and protect customer properties. Many people believe that mobile money is air with no regulations, warranty/guarantee, and procedures. The companies that use mobile money argue the mobile money has a guarantee, and the telecommunication companies can pay back all the funds deposited by cash. We all know that the Central Bank of Somalia is recovering and has made a lot of progress in this regard, like registering and securing the work of private banks, but mobile money regulations are required.

### d. Independence of the Central Bank

The Central bank is the institution with the responsibility to develop and implement monetary policies, control the nation's money supply and interest rates, and set regulations for the financial systems. There have been several instances where other institutions like the Ministry of Finance have talked about money issues, such as printing new currency, which shows mixed roles and reflecting a sense of lack of independence of the Central Bank. The importance here is that the central bank should be credible, transparent, and accountable and most significant independent in terms of political, financial, and monetary policy.

## Closing Remarks

In making the closing remarks, PDRC executive director, Ali Farah Ali expressed immense pleasure and pride regarding PDRCTalks as a platform. He then proceeded to thank the keynote speaker, panelists, contributors, and media team for their contribution in making the event a success.

He highlighted that the platform is a non-political one, where everyone is welcome to share their ideas, knowledge, and experience with the citizens of Somalia. He also stressed that discussions on the platform do not limit themselves to Puntland and that PDRCTalks is a Somali dialogue platform.

## Highlights

