

Following Mobile Money in Somaliland

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COVER: Money vendors sit behind stacked piles of Somaliland shillings in downtown Hargeysa, buying cash in exchange for foreign currency and 'Zaad money'.

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Summary

Somaliland's first mobile money platform was launched in 2009. Called Zaad—meaning 'to grow' or 'to prosper' in Arabic—it was started by the popular mobile phone company, Telesom. Zaad's mobile money transfer service has since become a feature of a financial landscape hitherto dominated by Somali remittance companies. Today, Zaad has a profound impact on the way people in Somaliland save and transfer money, so much so that industry organizations such as the *Groupe Spéciale Mobile* Association (GSMA)—a global association of mobile telephone operators—view it both as an example of best practice in financial inclusion, and of the transformative potential of mobile money.

This paper uses qualitative studies to examine the way Zaad is reshaping livelihoods and looks at the implications of its popularity for the relationship between state and non-state actors and its effect on Somaliland's institutional framework. These studies challenge the dominant, technocratic view of mobile money by examining its neglected political and economic dimensions, shedding light on issues of legitimacy and trust and the relationship between the state and citizens. Far from being financial, the story of mobile money is instead a story of converging and conflicting narratives of statehood.

Although Somaliland broke away from the rest of Somalia in 1991, it lacks formal international recognition as an independent nation state. As a result, no international commercial bank has offices there. But the history of its many remittance companies goes back to the 1970s, when hundreds of thousands of Somalis began sending money back home from jobs abroad, mostly in the Arabian Gulf. Zaad entered a market dominated by these well-established Money Transfer Operators (MTOs). It has since managed to outperform MTOs inside Somaliland, even in key economic sectors such as livestock and trade. Its success is widely attributed to Telesom's business model and outreach strategy, as

well as to Zaad's flexibility, popularity with retailers, and the fact that its money transfers are free of charge.

Zaad has grown because it uses US Dollars, meeting popular demand for hard currency in Somaliland. This helps people transfer and store US Dollars in Somaliland, giving them a mechanism to cope with a domestic economy whose volatility the state of Somaliland seems unable to address. In May 2015, following pressure from the government and Somaliland's Central Bank, Telesom unveiled a new Zaad service in Somaliland shillings (ShSl). Its initial operations were limited.

In rural areas, Zaad faces other constraints, with distribution and local perceptions of the service affected by several factors. Less reliable network coverage and network outages discourage people in rural areas from using it when other options like hard cash are at hand. Furthermore, Telesom's customer policy requires ownership of an official identity card (ID) to use the service. Women in rural areas often lack official documentation, and even women who can use a male relative's ID to open an account do not always do so, risking losing control of their money. Zaad is primarily viewed as an interface with the urban economy, being more popular with farmers travelling to town on market days to sell livestock or vegetables than with other rural inhabitants.

In Somaliland there is a division between those people and organisations who use foreign currency and those who use local currency: the first is between the large-scale businessmen and international relief and development workers who operate in US Dollars and civil servants who are paid in Somaliland shillings by the state; the second is between urban inhabitants who use US Dollars and rural inhabitants who use Somaliland shillings. Businesspeople, employees of NGOs and other international organizations, and those with a sizeable flow of US Dollars from overseas, are more able to diversify their financial practices. Stuck within the shilling economy, most civil servants criticize Telesom's influence on currency use as excessive and have called for stricter government oversight of the company's assets.

Zaad is shielded from the Central Bank's scrutiny because there are no local banking laws to regulate it. This is a reflection of the weakness of Somaliland's state institutions. Civil servants

portray the popular use of the US Dollar as something that undermines the sovereignty of the state. While nationalistic in tone, such anti-Zaad rhetoric is a projection of vested interests, and is sometimes connected to a historic loyalty to the rival heavy-weight of the Somali money transfer business, Dahabshiil, which originated in Somaliland and started operating internationally in the late 1990s.

Importantly, Zaad has not replaced other MTOs, which continue to serve as a financial interface—in US Dollars—between Somaliland and the rest of the world. Within the territory, shillings continue to be the main means of monetary transaction with the state. This is being challenged by Zaad, which facilitates the internal circulation of dollars. Its apparent success in ‘banking the unbanked’, however, has yet to be properly verified. Despite its undeniable impact, many argue that true global financial inclusion will happen only when international banks open up in Somaliland.

1. Introduction

¹ *Zaad* is also a word traditionally used by Somali pastoralists for a group of items essential for travel.

This report charts the distribution of mobile money across the financial landscape of Somaliland. It focuses on the country's first and, so far, only mobile money platform, *Zaad*,¹ a service developed by Telesom, the leading mobile phone company or Mobile Network Operator (MNO) in Somaliland. The report examines the way the *Zaad* service is reshaping business practices, as well as the implications of its popularity on the relationship between state and non-state actors, and the effect this might have on Somaliland's institutions. In particular, this study examines the following questions. What drives the circulation of mobile money? How is *Zaad* redefining the way Somalilanders use and think about transferring and storing money? What underpins the differences in their patterns of use? And, finally, how is the Somaliland state viewing the popular use of *Zaad*?

This study places the phenomenon of mobile money within the context of multiple currencies and interwoven financial circuits. It seeks to unearth the dynamics at work in a polity immersed in state-building and struggling for international recognition. While discussing the key features of *Zaad* across Somaliland, the study aims to engage in a broader debate on financial inclusion that, in recent years, has held up Somaliland's *Zaad* as an example of the transformative potential of mobile money.

The paper highlights the multi-layered impact of mobile money as local actors see it, their perspective largely depending on their own position in relation to the state and the market. *Zaad* thus emerges not only as a driver of change in the way people transfer and save money but as the object of interpretations, reflecting national attitudes towards legal tender as well as towards the state's ability to handle inflation and the international financial system. The evolution of mobile money, as well as more ingrained ideas of money and finance, both become lenses through which to understand the limits and the potential of *Zaad* to help people gain access to financial services. It also sheds light on issues of

legitimacy and trust, stemming from the blurred line that exists in Somaliland between state and non-state actors.

Zaad is one of about 130 mobile money systems to have sprung up across sub-Saharan Africa in the last decade. Eastern Africa, in particular, is considered one of the world's most dynamic markets for mobile money,² mostly because of the pioneering success of Safaricom's M-Pesa mobile money transfer system in Kenya. (The word *pesa* means money in Kiswahili.) The widespread distribution of the mobile phone in Africa in a very short span of time has facilitated the take-up of mobile money across the region. Given the low level of public access to formal banking institutions, the idea of delivering financial services through mobile phones has gained legitimacy in the debate on 'how to bank the unbanked'—namely, the possibility of reaching the roughly 2.5 billion people in the world who are estimated to have no access to financial services.³

As an approach to poverty alleviation, this idea has been mainstreamed in the development community, revolving, as it does, around the concept of financial inclusion.⁴ Within the context of this debate, mobile money telephony is seen as a key innovation, capable of bringing about development and improving livelihoods. Defined as 'a network infrastructure for storing and moving money that facilitates the exchange of cash and electronic value between various actors',⁵ it is considered a strategic innovation that can cut costs and extend the reach of financial services.⁶

This more development-oriented approach—as opposed to a purely financial one—carries with it an understanding of the transformational impact of mobile money that captures the complex way innovations are adopted in everyday use. Studies on other mobile money platforms, such as M-Pesa in Kenya, suggest that mobile money services reconfigure pre-existing financial practices. And, in doing so, mobile money prompts changes not only in businesses and livelihoods, but also in the relationships between different financial actors.

In the case of Somaliland, this change of dynamics between different financial players has particular relevance. Somaliland is often portrayed as an international anomaly—an African success story of political stability, it serves as a living laboratory for

2 Davidson and Pénicaud, 'State of the Industry: Results from the 2011 Global Mobile Money Adoption Survey', GSMA/MMU, 2012.

3 Pénicaud and Katakam, 'State of the Industry 2013: Mobile Financial Services for the Unbanked', GSMA/MMU, 2014.

4 Schwittay, 'The financial inclusion assemblage: Subjects, techniques, rationalities', *Critique of Anthropology* 31/4 (2011): 381-401; Rahman, 'Financial inclusion as tools for combating poverty: Joesph Mubiru Lecture', *Bangladesh Bank Quarterly* 7/2 (2009); Sarma and Pais, 'Financing inclusion and development', *Journal of International Development* 23 (2011): 613-628; Economic Intelligence Unit (EIU). 'Global Microscope 2014: The enabling environment for financial inclusion'. The Economist, 2014.

5 Kendall et al. 'An Emerging Platform: From Money Transfer System to Mobile Money Ecosystem'. *Innovations* 6/4 (2012): 49-64.

7 Bradbury, *Becoming Somaliland*, Oxford and Bloomington: James Currey and Indiana University Press, 2008; Renders, 'Appropriate 'Governance Technology? Somali Clan Elders and Institutions in the Making of the "Republic of Somaliland"', *Africa Spektrum* 42/3 (2007): 439-459.

8 The Somali-speaking region as a whole has a long history of non-state currencies tracing back to the mid-19th century, when the Maria Theresa *thaler* was the most popular coin in Ethiopia, as well as along the Red Sea and in the Arabian Peninsula (Tschoegl, 'Maria Theresa's Thaler: A Case of International Money', *Eastern Economic Journal* 27/4 (2001): 445-464).

9 Bradbury, *Becoming Somaliland*

theories on state-building. More than two decades after it split from Somalia, though, this self-declared state is still inconsistently represented on maps, trapped in a diplomatic limbo, and yet functioning and, in some economic sectors, even thriving. The contrast with Somalia, from which it seceded, is stark. When the former British protectorate broke away in 1991 following a rebellion against the regime of President Siyaad Barre, it began forging a path that—despite tensions and hurdles—has led to its relative stability today. Much debate has since focused on why Somaliland did not follow Somalia's fragmented fate. This has involved discussing the governance structures that emerged, as well as the structures shaped by many different actors after declaring independence.⁷

The convergence of political, economic and traditional elites lies at the very heart of Somaliland's contemporary history. The dynamics of these relationships, which are not void of tensions, are constantly reproduced in the political, judicial, social and economic life of the state. Since declaring independence, the business community has been able to operate with a relative amount of freedom. It has played an active role in building the state's financial infrastructure, which in turn, whether intentional or not, has lent the political leadership some legitimacy. Business people have been involved in everything from decisions concerning the printing of the national currency to the control of monetary circulation.⁸ Somaliland's two most dynamic sectors—remittances and telecommunications—have contributed to a degree of economic growth, even with a lack of sovereign recognition. This has brought Somaliland from the fringes of international politics and the global economy to being distinctly transnational.⁹ A significant percentage of Somaliland's citizens possess a foreign passport, its international phone rates are among the cheapest in the world, and foreign currencies—such as the US Dollar—circulate freely alongside the Somaliland shilling, the legal tender.

The close, often overlapping relationships between Somaliland's politicians, business people and traditional leaders, and the blurred line between politics and business that is a critical feature of the country's political make-up, have also shaped the rapid uptake in Somaliland's use of mobile money. The story of

mobile money in Somaliland is one of converging and conflicting narratives of statehood, and offers insights that challenge the dominant, technocratic view of mobile money to illustrate its otherwise neglected political and economic dimensions.

Methodology

The research for this paper was carried out in Somaliland in early 2014, using qualitative methods of data collection. It focused on how people use mobile money and how they make sense of it as an innovation in relation to older, more familiar systems of storing and transferring value.

The paper draws on a wide-ranging review of industry literature, policy papers, and corporate communications and official reports; on seventy loosely structured interviews conducted in three places: Hargeysa, Somaliland's capital city of about 725,000 inhabitants; Berbera, a port city of about 70,000 residents; and Tog Wajaale, an important border crossing into Ethiopia, of some 10,000 inhabitants. Other interviews were carried out in rural communities on the outskirts of Hargeysa and along the Hargeysa–Berbera road.

The interviewees included key informants, such as Zaad service managers and agents, retailers or merchants and other individual users, as well as money transfer operators, executives and agents. It also includes large, medium and small-scale business owners, ministers, civil servants, traditional leaders, and employees of NGOs and international organizations. Merchants and customers were randomly selected in shopping areas across Hargeysa and Berbera, while state officials were chosen for their knowledge of, or involvement in, issues related to Zaad or to the country's monetary policy.

The lack of quantitative data on the money transfer business reflects a general reluctance among those involved to give out figures about how much money they are handling or other aspects of their activities, as their operations depend on secrecy and confidentiality. Time constraints meant it was not possible to do research in the eastern Sool and Sanaag regions, where separatist tensions run high and the Somaliland shilling is not always

accepted. This might have offered insight into the way Zaad is providing an alternative to the Somaliland shilling.

The first part of this paper provides an overview of Somaliland's financial landscape, paying particular attention to the roles of the Central Bank and of the MTOs—especially the largest, Dahabshiil. The second part examines the origins of Zaad as an MNO, as well as looking at the business model. It owes its material largely to a case study of the GSMA's Mobile Money for the Unbanked (MMU) unit. And the third part discusses the widespread adoption of mobile money as a major method of payment, and examines its impact on one of Somaliland's key economic activities, the livestock trade. The paper concludes by discussing areas of convergence and areas of tension emerging between Somaliland's different financial actors.

2. Outlining Somaliland's financial landscape

The legal tender of the Republic of Somaliland is the Somaliland shilling, but a feature of the country's financial landscape is the widespread use of the US Dollar, for which the shilling is exchanged.¹⁰ Given the country's heavy reliance on imports, the price of imported goods is often displayed in US Dollars. Yet, labelling Somaliland's economy as 'dollarized' is an oversimplification. National currency circulates in three denominations: 500, 1,000, and 5,000 shilling bills—the latter introduced in 2011 to make it easier to carry around. Ethiopian birr are also exchanged for Somaliland shillings, particularly in borderland areas.

The plurality of currencies in use reflects the different factors that drive Somaliland's economy. The US Dollar is well distributed in urban areas because the main sources of it are remittance companies, international trade and livestock traders, and international organizations and NGOs—almost all of them based in cities. The Somaliland shilling is different: its main source is the Somaliland state, which pays its civil servants in its national currency. Shilling notes are often used as petty change or pocket money in place of metal coins because their value is so low. Shillings are popular in rural areas, where small transactions are common. Ethiopian birr are usually used for the *khat* business—*khat* is exported daily from Ethiopia—and where access to US Dollars is restricted.¹¹

In the absence of international commercial banks operating in Somaliland, there are two major financial institutions: MTOs and the Bank of Somaliland.

Money Transfer Operators

The attitude of many Somalilanders towards their country's financial institutions is rooted both in the history of engagement by businessmen in politics and in shaping monetary policy, and in an old distrust of Somalia's Central Bank, before Somaliland's 1991 secession. The two aspects are intertwined. In the latter years

¹⁰ In mid-2015, the exchange rate was ShSI 7,200 to USD 1.

¹¹ *Khat* is a small tree and cash crop grown in highland areas of Ethiopia, Kenya and Yemen, mostly for Somali and Yemeni markets, where popular demand for it is high. Chewed fresh, its leaves contain a relatively mild stimulant. Also written as *qat*.

12 Omer, *Supporting Systems and Procedures for the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala)*, Nairobi, UNDP Somalia, 2004.

of the Siyaad Barre era, private actors—and most particularly money transfer operators—began stepping into the void left by state institutions eroded by corruption, cronyism and inefficiency. Key external sources of currency came from cross-border trade and migration, the latter generating the substantial sums of money that have shored up the Somali economy since the 1970s.

At that time, migratory routes went east towards the Arabian Gulf, where many Somalis found employment in a booming oil industry. Networks of agents, often connected to each other by kinship, facilitated the transfer of value from one place to another using a practice known across the Indian Ocean and South-East Asia as *hawala*, meaning ‘transfer’ in Arabic. Within the Somali context, it was initially based on high-value goods bought in the Gulf and then shipped to and sold in Somalia.¹² Later, transfers became mostly immaterial, their value no longer backed by goods but guaranteed by verbal agreement between *hawala* agents. This system relied on the trust that bound customers to agents and agents to each other. A *hawala* agent in one country would collect money from a client, and instruct another agent elsewhere to pay the money out to its intended recipient. Recipients without valid documentation identified themselves by answering questions about their relationship to the person sending the money. A third party vouched for them if they could not give the right answers.

The money transfer operators that have emerged from the *hawala* system over the past forty years have each followed similar procedures. In terms of size and organization, however, they have varied greatly, and their operating procedures have taken different paths. While some have operated on informal agreements reached by relatives at either end of a financial transaction, others have diversified, building reputations as resilient and trustworthy business enterprises. The absence of state institutions and a functioning banking system means that familiarity with MTOs has grown. The *hawala* system has been able to capitalize on the fact that most Somali refugees and migrants do not have access to formal financial institutions outside Somalia. Thus, today MTOs

provide financial services to the Somali diaspora, enabling far-flung families to maintain and cultivate long distance financial relationships. At the receiving end, they provide Somalis in the Horn of Africa with a vital lifeline to the world outside.

The data on the exact value and volume of remittances to Somaliland are imprecise—as opposed to all the Somali territories, for which in 2015 remittances were estimated at USD 1.6 billion—but the most updated survey maintains that about 44 per cent of households receive remittances.¹³

The fact that MTOs are one of the few channels through which Somalis can contribute to their families' welfare became painfully clear after the 9/11 attacks in New York. In the wake of the attacks, the US government blacklisted 62 individuals and organizations for their alleged connections to al-Qaeda, including the then largest Somali MTO, al-Barakaat (*barakaat* means blessings in Arabic).¹⁴ Its assets frozen, al-Barakaat went bankrupt, with disastrous consequences for many Somali families.¹⁵

Besides funnelling remittances, MTOs play a crucial role in Somaliland's main trade, livestock. As a key supplier of meat to the Arabian Peninsula, Somaliland requires the financial infrastructure to facilitate backflows of capital from the Red Sea to the Arabian Gulf. Thus, its MTOs provide the auxiliary services for the export of cattle, sheep, goats, and camels, becoming an important source of hard currency, particularly the US Dollars so widely sought by Somaliland's citizens for hedging against local inflation. It is the MTOs that make it possible to send and receive payments to and from the United Arab Emirates and beyond. In this, the choice of using one MTO over another depends on a variety of factors—anything from having a personal connection to an agent, to the reputed reliability of the MTO or its reach. Businessmen who trade with importers/exporters in several countries sometimes rely on a different MTO for each.

There are two kinds of MTOs in Somaliland: those registered with the Ministry of Trade and Commerce that hold a licence they renew annually; and those operating with a letter of approval from the Central Bank that operate without a valid trade licence.¹⁶

13 Hammond, 'Family Ties: Remittances and Livelihoods Support to and between Somali Households', Food Security and Nutrition Analysis Unit, 2013.

14 When the US assets of listed groups were frozen on 7 November 2001, thousands of account holders lost access to their savings. Shortly afterwards, the US-based international gateway for al-Barakaat's phone service was blocked.

15 Cockayne and Shetret, 'Capitalizing on Trust Harnessing Somali Remittances for Counterterrorism, Human Rights and State Building', Center on Global Counterterrorism Cooperation, April 2012.

16 The first category comprises seven MTOs: Dahabshiil, Deero, Omar Global, E-Kaafi, Amal Express, Almis Remittances and Amoud Express. The second comprises ten MTOs: Mustaqbal Express, Juba Express, Kaah Express, World Remit, Tawakal Money Transfer, Hodan Global Online, Idman Money Transfer, Olympic Money Transfer and Xarago Express.

Dahabshiil

The demise of al-Barakaat cleared the way for the rise of Dahabshiil, today the leading Somali MTO and one of Africa's most successful businesses.¹⁷ In many ways, the story of this company—established in 1970 by Mohamed Saeed Duale, a businessman from Burco—represents the story of the Somali remittance business as a whole. It is also part of the narrative of this north-western corner of the Somali peninsula that, after thirty years of unification with Somalia, returned to being Somaliland.

Dahabshiil's initial geographical focus was on the Arabian Gulf States. There it relied on middlemen who transferred money from Somali workers by converting the value of their remittances into goods, which were shipped back to their families or sold by Dahabshiil's agents in Somalia for cash, which they then handed to the intended recipients in US Dollars or Somali shillings. Burco was Dahabshiil's initial headquarters, but it moved to Ethiopia during the civil war in the late 1980s, where it served refugees from Somalia. After Somaliland's secession in 1991 it repositioned itself to meet the growing demands of refugees fleeing from southern Somalia, opening an office in Hargeysa and Dubai with branches elsewhere in Africa and in the West where Somalis had resettled or had sought refuge. Mohamed Saeed Duale and, later, his son, Abdirashid, were part of the state-building process in Somaliland, donating money to local communities and forging loyal relationships with politicians and other leaders. By doing so, they consolidated the company's dominant market position in Somaliland.

On its website, Dahabshiil says it invests 5 per cent of its profits in community regeneration projects for schools, hospitals, agriculture and sanitation. With 5,000 agents in 144 countries, it works with NGOs and UN agencies transferring funds across the Somali region. Publicly, Dahabshiil is seen as having a privileged, influential relationship with the Somaliland state. Despite its position of strength, Dahabshiil rapidly came under pressure from Telesom's Zaad.

In response to this Dahabshiil launched E-Cash, a debit card, in 2009, and established an Islamic *lariba*—or interest-free—bank, in neighbouring Djibouti in 2010. A debit card with a magnetic

band that worked in Dahabshiil branches and Dahabshiil-affiliated merchants, E-Cash could be used to withdraw cash and purchase goods by swiping it in a card reader. But it needed a reliable Internet connection to work. Every Dahabshiil account holder is entitled to an E-Cash card and at its peak in 2014, there were more than 4,500 E-Cash cashpoint machines and up to 2,500 transactions a day carried out on them in Hargeysa alone. The E-card system was also active in Burco, Borama, and Berbera. It was popular with NGOs and international organizations, whose staff had personal Dahabshiil accounts. However, by 2015, the number of merchants using E-Cash had significantly dropped, and many shop-owners expected the business to fold.

Central Bank

Somaliland's Central Bank started working in 1994, three years after the country declared itself independent, but its status was not ratified by parliament until 12 April 2012.¹⁸ The dissolution of the Credit and Savings and Central Bank of Somalia in 1991 had led to a financial meltdown in which account holders lost their savings, a traumatic event that still affects Somalilanders' relationship with their Central Bank today. Banks had been seen as unreliable long before the collapse of the Somali state, and after it, control of the Somaliland shilling became a key political issue. In the first, troubled years of independence, the government relied on contributions from local entrepreneurs to help print a new currency.¹⁹ The Central Bank strove to rebuild a monetary system and mend citizens' trust in the state's financial institutions and products.

Today, the Central Bank's flow of Somaliland shillings is generated from revenue collected by the Ministry of Finance. This reserve is drawn upon to fund the machinery of the state and tackle inflation through the purchase of US Dollars, especially at the start of the month and during celebrations such as Ramadan and Eid, when the amount of hard currency coming into Somaliland is higher. This purchase is done through a partnership between the Central Bank and as many as 1,000 licensed money vendors in central Hargeysa, most of them operating in the area surrounding the city's Oriental Hotel. The mechanism has

18 Somaliland Central Bank, 'Law No. 54/2012', Government of Somaliland, 2012.

19 Bradbury, *Becoming Somaliland*; Balthasar, 'Somaliland's Best Kept Secret: Shrewd Politics and War Projects as Means of State-Making', *Journal of Eastern African Studies* 7/2 (2013): 218-238.

20 USD 1: SSh 6,400–6,800 (2004–2010); SSh 5,800–6,000 (2010–2012); SSh 6,500–7,000 (2012–2013); SSh 7,300–7,800 (2014–2015).

BOX 1. *HAGBED*

Also known across the Somali region as *ayuuto* (from the Italian word *aiuto*, ‘help’), or *shaloongo*, the *hagbed* is a traditional Somali rotating saving and credit association involving mainly (but not only) women. A group pools money, putting in the same amount each. Money is borrowed by each member in turn, for reasons ranging from the purchase of livestock and other agricultural items, to the setting up of small businesses and social expenses for funerals or weddings. The group sets the rules of the club, decides the timeframe and amount, and nominates a paid manager to keep the books. Participants sign an agreement defining the amount of money for which each member is liable.

worked reasonably well since 2005, reducing the degree to which the country’s official currency fluctuates against the US Dollar.²⁰

Aside from steering the country’s monetary policy, the question of keeping inflation at bay is an important issue for a country with such a negative trade balance. The Central Bank should have the mandate to oversee Somaliland’s financial institutions and enforce their compliance, but no regulatory framework for the financial sector is yet in place. While a law on Islamic *lariba* banking has been approved by the House of Representatives and was signed by the President on 3 October 2012, parliamentary debate concerning commercial banking law has been dragging on for years.

3. An overview of Somaliland's telecom sector

The development of the telecommunications sector in Somaliland should be seen within the context of the sector's development in the Somali peninsula as a whole, including in south-central Somalia and Puntland, east of Somaliland. Telecom companies across these regions share two main features: their lack of regulation and their strong links to MTOs, the money transfer operators.

The limited reach of regulators and the prominent role of local people of influence combine to shape the volatile environment in which entrepreneurs negotiate their access to local markets. One important side effect of the regulatory vacuum in Somaliland's financial sector is the fact that MNOs do not connect to each other, which restricts consumers' ability to make calls and transfer data, including mobile money, across different networks.²¹ This explains the popularity of mobile handsets that are compatible with more than one SIM card, from different networks.

Historically, Somali remittances and telecommunications businesses have been intertwined. Before the 1991 collapse of the Somali state, telephone communication centres facilitated coordination between the senders of remittances abroad and their recipients. Communicating with relatives and receiving remittances from them carries an intrinsic sense of social obligation, encouraging the cultivation of ties both within the diaspora, and between the diaspora and the homeland.²² MTOs have provided their customers with cheap access to fast technologies, making it possible for Somalis to exchange information with relatives living abroad and solicit remittances from them. The money transfer and communications industries have thus evolved in parallel, their mutual relationship an example of 'what works in Somalia'.²³

The capital-intensive nature of the telecommunications business means most mobile phone companies, the MNOs, are public companies, known as *shirkaad* (s.) or *shirkooyin* (pl.) in Somali. In the absence of a financial trading floor or stock market, shares

²¹ MNOs which share the same owners or main shareholders—as in the case of Hormuud, Golis and Telesom—do connect to one another.

²² Lindley, 'Remittances in Fragile Settings: A Somali Case Study', Households in Conflict Network Working Paper No. 27, Brighton: University of Sussex, 2007.

²³ Hesse, 'Where Somalia works', *Journal of Contemporary African Studies* 28/3 (2010): 343-362; Harper, *Getting Somalia Wrong?*, London: Zed Books, 2012.

in these phone networks are traded through established MTOs, which have become, almost by default, the most important financial institutions in the different Somali territories, by virtue of the fact that they operate seamlessly across borders.

Typically, an entrepreneur setting up a company will open an account using his or his clan's MTO as a place to collect money. The MTO is then the place where interested buyers go to purchase shares in their company. Shares are not, however, on sale to everyone. Often, those allowed to buy them are either local religious leaders or those from the same clan as the company's founder and principle shareholder. Offering and acquiring a stake in a *shirkaad* is thus a way of forging strategic partnerships, at a business and a political level. Typically *shirkooyin* have very fluid and fragmented shareholder structures, with one or more shareholders—connected to each other through other means—usually in charge of the company. MNOs are mostly associated with their main shareholders, who can include members of different clans, but *shirkooyin* are perceived as having a well-defined clan identity, usually that of the main shareholder.

In south central Somalia, Hawiye sub-clans, particularly the Abgaal, Habar Gedir and Duduble, have dominated the telecommunications business. This is strongly linked to the money transfer business, which is also dominated by Hawiye businessmen in south-central Somalia, by the Isaaq in Somaliland, and the Daarood in Puntland. The telecommunications industry also depends on territorial control to guarantee the security of its infrastructure. From 1991 onwards in south-central Somalia, Hawiye militias were the best positioned to influence the telecommunications sector because they held military sway. The fluidity of conflict, however, put these structures to the test. Telecommunications' network blockades are still used to renegotiate previous political arrangements. The telecom sector has strategic value, something that is not lost on phone companies, which use the fact that, in conflict, all parties need mobile telephony.

Pioneering mobile networks emerged after civil war broke out in south-central Somalia in 1991. Among them was the al-Barakaat Group of Companies (BGC) whose influence on the Somali telecom sector was far-reaching. Founded by Ali Ahmed Nur

Jim'ale, a Hawiye from the Habar Gedir sub-clan, BGC was the parent company of al-Barakaat Money Transfer and al-Barakaat Telecommunications, as well as of Red Sea Telecommunications, Globe Tel Telecommunications, the Al-Barakaat Bank of Somalia, and the Somali Refreshment Company. At its peak, in 2001, al-Barakaat Telecommunications was southern Somalia's leading company and largest employer. It had over 600 shareholders, though Ali Ahmed Nur Jim'ale remained the majority shareholder. When al-Barakaat's money transfer operations went bankrupt because of the US government's freezing of its US assets after 9/11, its telecom network also collapsed. This shock led to an overhaul of the entire Somali telecom sector. The year 2002 saw the emergence of three new companies built on al-Barakaat's old telecommunication's facilities, both its former premises and its technology, in Ali Ahmed Nur Jim'ale's former strongholds. These companies were Hormuud in south-central Somalia, Golis in Puntland, and Telesom in Somaliland.

24 Pénicaud and McGrath, 'Innovative Inclusion: How Telesom ZAAD Brought Mobile Money to Somaliland', GSMA, 2013.

From Telesom to Zaad to Salaam bank

Telesom has more than one million subscribers and accounts for 85 per cent of mobile connections in the Somali territories. About 40 per cent of them are active Zaad users.²⁴ Forty-nine per cent of Telesom is owned by Ahmed-Nour Mohamed Jimale, with the remaining 51 per cent divided among more than 1,400 shareholders. When Telesom emerged, the market in Somaliland was shared between Sitco—Somaliland's first mobile company—Nationlink, Somali Telecom Group (STG), Somtel and Sotelco. In time, Telesom gained ground against the others. As it was a sister company to Hormuud and Golis telecommunication companies in Somalia and Puntland, it had the advantage that its customers could call relatives or businessmen elsewhere in the Somali territories. Gradually, Telesom expanded its shareholder base and, within a few years, began to outperform its competitors. This dominant market position paved the way for the launch of Zaad in 2009.

The model for the Zaad platform—the first-ever mobile money service in Somaliland—was drawn from the M-Pesa mobile money service launched by Safaricom in Kenya in 2007 and by Vodacom

25 Morawczynski, 'Exploring the Usage and Impact of Transformational M-Banking: The Case of M-PESA in Kenya', *Journal of East African Studies* 3/3 (2009): 509-525.

26 Darood clans—particularly Dhulbahante in Sool and Sanaag regions—have resisted the authority of the Isaaq-dominated Hargeysa government, the area remaining a bone of contention with neighbouring Puntland.

in Tanzania in 2008. Kenya's M-Pesa is considered a success story in terms of pioneering the popular use of mobile money, and an example of financial inclusion in Kenya's specific socio-economic setting.²⁵

A Telesom team that studied the mobile money systems in Kenya and Tanzania reached the same conclusions with regards to the specific settings and made recommendations to help adapt them to Somaliland's context. Thus, Zaad was designed to suit characteristics specific to Somaliland's economy. To start with, it would initially trade only in US Dollars, whereas the money transfer services in the other two African countries used their national currencies. According to Abdikarim Mohamed Eid, Zaad's CEO, the rationale for this was threefold. Firstly, the Somaliland shilling was not in common use throughout Somaliland, particularly in the eastern Sool and Sanaag regions bordering Puntland where Somaliland's sovereignty is contested.²⁶ Secondly, Somaliland shillings are problematic to trade in because inflation is high. Finally, the US Dollar is much sought after by Somalis for storing value and hedging against volatility.

To retain customers and meet popular demand at the low end of the economy, Zaad's service was initially free, though it had plans to introduce transaction fees. An informal agreement was reached, ahead of Zaad's launch, between Telesom and the Bank of Somaliland on how mobile money transfers would be regulated. Telesom's CEO agreed with the then Governor of the Bank of Somaliland's proposal that Telesom would have a hand in writing the regulatory framework. Because it envisaged future expansion beyond Somaliland's borders, Telesom put in place measures to comply with international anti-money laundering guidelines prescribed by the Financial Action Task Force. After obtaining a remittance licence from the Central Bank, Telesom adopted a Customer Due Diligence policy, incorporating Know-Your-Customer procedures, making it common practice to verify the identity of customers through their nationally recognized IDs or foreign passports.

Telecom's launching strategy relied on its network of agents to introduce Zaad to merchants and big business owners. Thus, Zaad built on existing trust in the Telesom brand and the agents and

merchants pioneering it. Prominent businesspeople in strategic economic sectors were approached and shown the new product. Telesom agents were sent out to the Mahamud Haybe livestock market on the outskirts of Hargeysa where they helped merchants open new accounts. Elsewhere, they convinced employers to adopt Zaad to help them manage their company payrolls. Many began to pay their employees' salaries directly into their Zaad mobile money accounts.

This outreach strategy helped familiarize people with mobile money. It also laid the groundwork for a network of merchants who accepted mobile payments. It was successful at getting people to store money in Zaad. In the mobile money business, this is seen as overcoming the single biggest hurdle. Most transactions are 'single-loop', meaning that putting cash in is followed relatively quickly by taking cash out.²⁷ Storing credit in a mobile transfer service illustrates that its clients have a high level of trust in it. For Zaad's clients, the fact that more merchants were accepting mobile payments acted as an incentive for them to use it too. In early 2014, about 59 per cent of them kept an average balance of USD 37 in their accounts.²⁸ Most of Zaad's subscribers were carrying out more than 30 mobile transactions a month, especially in payments to retailers, 83 per cent of whom maintained an average balance of USD 352.

The decision to focus on people-to-business (P2B) payments has proven a key factor in Zaad's popularity. It means mobile money has had a huge and positive impact on the delivery of crucial services, such as the delivery of power by the company Kaah, which provides one third of Hargeysa with electricity. It receives 65 per cent of its payments through Zaad, which it began using for this purpose in 2011. P2B has meant Telesom has also benefited from more distribution, increased sales, and reduced customer turnover.²⁹

Two years after launching Zaad in late 2011, Telesom established the Salaam bank in order to expand the range of Zaad's services. Zaad and Salaam are autonomous but related—their accounts synchronized through a system called KAAFI. Money can be moved between the two platforms, by depositing it first in a mobile wallet, backed up in a Salaam account. Up to USD

27 In the case of Safaricom's M-Pesa, GSMA calculated the number of times amounts equivalent to a single US Dollar circulated through the system. Measured against the total volume of money that entered and exited between October 2012 and March 2013, the ratio was over 4.1.

28 Pénicaud and Katakam, 'State of the Industry 2013: Mobile Financial Services for the Unbanked'.

29 Pénicaud and McGrath, 'Innovative Inclusion: How Telesom ZAAD Brought Mobile Money to Somaliland'.

30 Interviews with Ahmed Hashi Ooley, Minister of Telecommunications, 2011–2012.

31 The new two-step procedure now uses Unstructured Supplementary Service Data (USSD).

500 can be withdrawn at one time by mobile phone. A customer with accounts in both Zaad and Salaam can have access to microloans, issued through Zaad after their collateral—Telesom shares, property or livestock—are vetted by a Salaam agent. The local recipients of such microloans can include institutions of higher education.

By 2014, Salaam had between 12,000 and 15,000 account holders and branches in Somaliland’s main cities. It became the first of Somaliland’s banks to use Swift codes, common to international bank transfers. In March 2014, Salaam inaugurated the first automated teller machines (ATM) in Somaliland, as well as in other Somali territories. Three ATMs connected to Visa, Maestro and Mastercard were placed in the lobbies of the Safari and Ambassador hotels in Hargeysa—both owned by Telesom shareholders—and at the company’s main office in Hargeysa’s central Khairia Street. These are mainly for foreigners and Somalis from the diaspora who are generally more wary of using Zaad than local residents.

Telesom has thrived in Somaliland’s regulatory vacuum. This was created by benign financial neglect, mostly by Somaliland’s Ministry of Telecommunications, which has lacked the resources, qualified personnel, and an overall awareness of the economic and strategic value of the telecommunications sector.³⁰ The Somaliland government has been unable to rein in the sector. In 2011, the country’s president, Ahmed Mohamed Mohamoud Silanyo, submitted a proposal to parliament to allow the state to benefit from the revenues generated by telecommunications giants. Prolonged parliamentary debate came to nothing, and government remained unable to gain access to the telecommunications sector’s balance sheets or levy taxes on its revenue.

On 28 April 2015, Telesom announced the launch of the Zaad–Somaliland shilling (SISh) service. The design of Zaad’s platform underwent a major overhaul. Not only was a dual currency wallet introduced but Telesom simplified the procedure for money transfers.³¹ The service to transfer and store the local currency was made available in late May. No data on the volume of transactions in shillings are available, but anecdotally, US Dollars seemed to remain the most traded currency on Zaad.

4. Overcoming scepticism

Zaad was met with scepticism by many in the business community before gaining traction in 2010. Despite their familiarity with Telesom and satisfaction with the company as a whole, businesspeople were initially reluctant to process large amounts of money through a mobile phone. Some shop owners who had registered with Zaad as early as 2009, only started using it in daily transactions a couple of years later when customer demand to do so increased. The first Zaad clients learnt to trust the system by depositing and transferring small amounts of USD 20 or USD 50 at a time. But, as the number of Zaad users grew, more and more people began asking to be paid by mobile phone. Paying salaries using Zaad was a ‘winning strategy’ for businesspeople, as the owner of a furniture shop in Hargeysa testified. Its large scale use by Somaliland’s main businessmen created a critical mass of Telesom users with Zaad mobile phone wallets. Previously, employees had been paid in cash withdrawn from a company account in a local *hawala* or retrieved from a safety deposit box. Companies with branches all across the country would have to transfer cash physically from their headquarters in Hargeysa, handing envelopes to truck drivers or sending salaries through remittance agencies, incurring additional costs in the process. A local trader dealing in petrol, food and cigarettes, with shops in Somaliland, Ethiopia, and Djibouti, who was openly sceptical about Zaad in 2009, began using it in response to requests from individual employees and eventually adopted the system for all of them. When Salaam bank was launched, he opened an account through which he withdrew money to put onto his mobile wallet from which he could make payments to his staff. Transport owners also realized how useful the service could be and, in a country where resources are concentrated in a few urban centres and the roads connecting them often poor, they began to use Zaad to transfer money to truck drivers in urgent need of spare parts or fuel.

Zaad has also had an important impact on the conduct of trade, enabling small shop owners better delivery of goods and services. The owner of a small convenience store on the outskirts of Hargeysa said his customers placed orders and sent him money by phone, making it possible for him to deliver items by wheelbarrow, even to other neighbourhoods. Similarly, the manager of a *khat* kiosk in Berbera said Zaad had helped her business expand. Loyal customers could pay without coming in person, their bundles of *khat* delivered to their doorstep on motorbike. Members of saving circles, the *hagbed*, can make regular contributions to the Zaad account of the person in charge of it. In the past, people living far away used ‘poor transport’ as an excuse, said the *khat* seller, to avoid paying their dues. The existence of Zaad had reduced the incidence of this, easing not only members’ payments but also transfers to the scheduled beneficiary. Merchants explain Zaad’s good uptake as filling a gap in the market. Referring to the saying ‘the customer is king’, a young fashion designer from Hargeysa called Fatuma said she had opened a Zaad account as all her customers were asking to pay her through it.

Some women asked if they could send money on my number, and at the beginning I did not know what to do. But they told me that I could trust the system because their husbands were paid with Zaad, and I accepted and gave it a try. And it was good, not only because I did not lose my customers, but also because I gained new [ones] all across the city. On top of that, I use Zaad to send money to a business partner in Berbera who then purchases the fabrics I need in India and Dubai using *hawala*.

Thus, Zaad took hold, appealing to businesspeople whose livelihoods depended on a combination of long-distance connections and mobility.

Mobile money in rural areas

The distribution of mobile money in rural areas is constrained by the following factors.

1. *Limited access to electrical power.* Many villagers rely on diesel generators or solar panels, and people in more isolated

communities are unable to recharge their handsets regularly. Phones are turned on every other day or only when someone is expecting a call from their relatives. According to data collected by the Food and Agricultural Organization (FAO), the cost of recharging a mobile phone ranges from USD 4.10–USD 12.40 when the device is left on all day; USD 2.40–USD 7.10 when it is switched on every other day; and USD 1.20–USD 3.50 when the phone is active for one in every three days.³² Recharging a mobile phone therefore involves the sort of cost that users have to consider carefully.

2. *Network coverage and reliability.* Telesom network outages discourage people in rural areas from using Zaad if they have other options to hand. Some are also sceptical that its services are as free of charges, as it claims. A woman from a small village between Hargeysa and Berbera said she ‘cannot always trust the network. When you send money through Zaad, you have to call the other person to be sure that he has received the payment. Therefore, you pay something.’ People often make Zaad payments standing face to face to verify that their transactions are successful.
3. *Identity document or ID ownership.* The scarcity of identity card ownership in the countryside means Telesom’s official policy on ID ownership is often sidestepped. A relative can vouch for someone else by lending him his own ID number. This is most commonly done for women. There are no official figures on the number of undocumented women living in rural Somaliland, but many female interviewees said they had never needed to apply for an official document because of their limited contact with state institutions. Many had opened a Zaad account using a male relative’s ID. Some who found Zaad useful claimed to have applied for an ID in order to stop relying on relatives to use the service.

Zaad is less relevant in rural areas, where the economy is based predominantly on subsistence farming and where the Somaliland shilling is the main currency used, often by women in charge of household budgets. The shilling's use for small cash expenses has led to the popular perception that it is a woman's currency, whereas a hard currency retains its value across time and space and is a male preserve. The tension that exists between US Dollars and Somaliland shillings captures another conceptual dichotomy, too, between what a businessman in Hargeysa called 'big bites'—money linked to long-term investment and cross-border mobility—and 'small bites', or money used for everyday purchases.

Mobile money is not as gender-specific, and when it comes to using Zaad, it is difficult also to draw a sharp divide between urban and rural. Rather, Zaad is seen as an interface between both. It is popular among people dwelling in rural areas who use Somaliland shillings in their daily lives, since many have frequent contact with traders from urban areas and travel to Hargeysa on market days to sell livestock or vegetables. Often, even if they are paid in US Dollars, they change the money into Somaliland shillings. Urban retailers respond in kind. A jewellery seller in central Hargeysa called giving customers from rural areas their change in US Dollars 'a waste'. He always kept Somaliland Shillings for them instead. 'They prefer shillings because it is the money they use the most.' They also invest it in assets such as gold, which they favour for social payments, like dowries, and as an investment.

Moving US Dollars

Zaad's focus on employers paid off because it made paying salaries in US Dollars significantly easier. Companies that were using US Dollars to pay their employees' salaries were already won over by the fact that using Zaad made it possible to avoid the rush for hard currency that marked the beginning of each month. Employers could now store US Dollars in their accounts and transfer employees' wages directly into their Zaad mobile wallet.

Zaad, an MNO, thus facilitated the storage of hard currency, previously something done by MTOs. On the domestic market, it took over economic sectors that had traditionally depended

on MTOs. At Hargeysa's Mahamud Haybe livestock market, for example, traders used to seal a purchase with promissory notes—letters signed by a buyer that authorized a seller to withdraw money from a branch of an MTO in which the buyer had deposited US Dollars. Though initially hesitant, as people became more familiar with the system and minor issues with the network were resolved, using Zaad to pay for larger breeds of livestock, such as camels and cattle, became more common. This is different for goats and sheep as it involves lower amounts. Traders received payments directly into their Zaad accounts, storing as much as USD 100,000 in their mobile wallets, and using it to organize the transfer of livestock to their destination as well.

The popular use of Zaad has reduced the 'fraction problem', as one shop owner has called it, with the cost of goods displayed in US Dollars and cents. This is especially the case for imports, which in Somaliland is almost everything with the exception of some local foods. Customers no longer have to use Somaliland shillings to pay off a balance of a few US Dollar cents. Using Zaad on their mobile phone, they can pay the full amount—cents and all—in one go.

Key utilities have seen their business made easier too. In the past, said Abdi Rahman Jama Farah, chief cashier of the Kaah electricity company, people from the company had gone from house to house collecting cash from customers for their bills. Often, the women staying at home had no cash or no small denominations. Those who paid did so partly in US Dollars and partly in Somaliland shillings. This was a hassle for the company's accountants, who struck up a deal with Telesom, making it possible for payments for power bills to be made directly. Today, bills are managed through a website, www.zaadservice.net.

Complementarity between Zaad and hawala

Zaad's ascendance as a mobile, money transfer operator put most of the small MTOs that had been operating in Somaliland out of business but left large *hawala* companies uncontested, at least for international money transfers. The rise of Salaam bank has eroded the once dominant position in de facto banking of the largest MTO, Dahabshiil.

Abdirashid H., the owner of a warehouse storing and selling electronic goods in Hargeysa, still maintains that each serves a different purpose. ‘Telesom is a telecommunication company, Dahabshiil is a bank.’ He adopted Zaad when he opened up his shop, dealing in imports priced in US Dollars in 2011. Today, he says 70 per cent of his customers prefer using Zaad to pay him, so he holds a Salaam bank account into which he regularly transfers some of the money he has received in his Zaad mobile wallet. He cashes the rest and deposits it in his Dahabshiil account, which he uses for international money transfers. Keeping two or more accounts—usually one with Zaad, the other with one or many MTOs—is a common strategy among businesspeople trading in imported items. Leaving part of their money in their mobile wallets, they use the rest as investment capital to turn into cash through the *hawala* system.

People tend to make a distinction between Salaam bank and Zaad. The owner of a jewellery shop in the Oriental Hotel area in the heart of Hargeysa, Muuse M, said he used Zaad to receive payments, cashing them in as soon as he had a balance of USD 2,000, leaving around USD 500 in his wallet, and depositing the rest in his Dahabshiil account, from which he transferred money to buy gold jewellery from his business partner in Dubai.

The manager of a Tawakal petrol station in Hargeysa followed the same pattern of use: 75 to 80 per cent of his customers paid him through Zaad and he used part of this income to pay the company that provided fuel to him in Berbera, cashing in the rest and depositing it with Dahabshiil, which is better established. Most interviewees said their use of Zaad and traditional MTOs complemented each other, largely because they operated on distinct scales, with Salaam bank less popular at the time of writing. Its gradual integration into the banking system has attracted the interest of local entrepreneurs. The recent possibility of transferring money using Swift codes and the opening of the three ATMs in Hargeysa has been welcomed—particularly by those members of the diaspora investing in Somaliland who are less familiar with Zaad and more likely to need options other than those offered by the *hawala* system.

BOX 2. LIVESTOCK TRADE

Mohammed is a livestock trader on the Somaliland/Ethiopian border. He buys livestock from Ethiopian pastoralists and sells cattle to Yemen and Saudi Arabia. He has an agent in the southern Yemeni city of Aden whom he notifies of livestock transfers by phone. When the livestock arrive, his agent sends him payments via Dahabshiil. Mohammed withdraws the money in US Dollars, converting 75 per cent of it to Ethiopian Birr, which he uses to buy more livestock. He puts 10 per cent in his Zaad account to pay for transportation. The remaining 15 per cent is left with Dahabshiil.

Other traders rely on agencies in the port of Berbera, from where most of the livestock is shipped to the Arabian Peninsula. One such agency is Pinda, a money exchange, livestock and shipping agency whose owner, Khadar M., acts as an intermediary between traders and distributors. Zaad, he said, was critical, allowing him to work at night as well, when livestock is often shipped to Yemen. His customers sent him money for his commission through Zaad, plus money for transport and taxes. He said he charged shipment fees of USD 50 per camel, USD 25 per cow, and USD 10 per goat. Part of this revenue is converted into Somaliland shillings to pay taxes.

33 Pénicaud and McGrath, 'Innovative Inclusion: How Telesom ZAAD Brought Mobile Money to Somaliland'.

Coexistence of Zaad and Somaliland shillings

According to the *Groupe Sociale* Mobile Association, 'Telesom is the first mobile money provider to create a mobile money system that is functioning effectively as a cash replacement tool'.³³ The popularity of mobile money has not eliminated cash, however, as becomes clear when walking in downtown Hargeysa, where money vendors sit behind stacked piles of Somaliland shillings, their hands on their mobile phones. Since the introduction of Zaad, their job has undergone radical changes. In the past, their main task was converting US Dollars into Somaliland shillings and vice versa. Located in proximity to branches of MTOs, they offered better US Dollar rates. They would transfer Somaliland shillings, mainly from civil servants and rural dwellers, into US

BOX 3. KHAT BUSINESS

According to Dauud Egal, Director of Planning and Statistics at Somaliland's Ministry of Finance, in 2012 Somalilanders spent USD 524 million—USD 1.5 million a day—on *khat*. The *khat* trade is Janus-faced. It is a major source of tax for the Somaliland state and an economic sector employing thousands of people, but it is also a drain on hard currency, has effects on health and carries social costs.

The country's *khat* market is divided between three wholesalers, each one controlling its own distribution network. Zaad is widely used in the *khat* business, particularly in its retail. Abdikarim M. works for Gafaane, the principle wholesaler in Hargeysa, and runs a kiosk to which bundles of *khat* are delivered twice a day, at 8AM and 1PM. The bundles—*geed*, a literal translation of 'trees' in Somali—are priced in US Dollars, making the initial cost of it in Ethiopian birr easier to convert to another currency and shielding it from fluctuations of price in Somaliland shillings. Abdikarim said using Zaad has got rid of the need for carrying huge quantities of shillings—which are so devalued they are measured in weight, one kilogramme going for about USD 21 in 2014. He relies on one money vendor for converting money straight from Zaad into Ethiopian birr.

Dollars. Today, though, they convert cash of both currencies into digital money, topping up their customers' accounts from their own, well-filled mobile wallets. They call this 'Zaad money,' a currency distinct from others but pegged to the value of the US Dollar. Some money vendors specialize in trading in Zaad money and Ethiopian birr, changing US Dollars held on their mobile wallets directly into birr. Shop owners keep Somaliland shillings in reserve to use as spare change, either as *zakat*—Arabic for alms—for beggars or as small change for people from rural areas.

Interweaving monetary circuits

Spaces where foreign citizens, urban and rural residents, and state and non-state actors meet and interact are spaces where circuits of different currencies and types of money interweave. These

spaces are easy to spot and can be borderlands, markets or roads. The village of Tog Wajaale, located on the border with Ethiopia between Hargeysa and Burco, is one such space. The border is a strip of land ten metres wide, crossed ceaselessly on foot by Somalilanders and Ethiopians. Trading in US Dollars is forbidden on the Ethiopian side of the border but allowed on the Somaliland side where US Dollars, Somaliland shillings and Ethiopian birr circulate. Electronic items, clothes and other imported goods arrive from the port of Berbera and are either shipped onwards to Djibouti, bought and sold by Ethiopian customers, or smuggled across the border into Ethiopia. In some cases, goods are ordered from local kiosks just inside Ethiopia, not far from the border in an area still covered by Telesom's phone signal. Somalilanders make their Zaad wallets available to their Ethiopian counterparts to convert birr into Zaad money for transferring payments. Once these payments from Ethiopians have reached the Somaliland vendors, the items the Ethiopians have purchased are smuggled into Ethiopia.

Another example of such a space is Hargeysa's livestock market. Money vendors with stacks of Somaliland shillings are located in the middle of the grounds. They convert US Dollars and Zaad money into Somaliland shillings, which traders use to buy sheep and goats from pastoralists, and to pay taxes to officers from the Ministry of Finance, which vary depending on the kind of animals traded there. Somaliland shillings circulate in street markets where women sell vegetables and dairy products, both inexpensive items that can easily be paid for with a few bills or notes. Salt, spices and produce costing a fraction of a dollar are priced in Somaliland shillings, though even local products are paid for in US Dollars when purchased in bulk.

In general, the rural economy is based in Somaliland shillings, something that hampers the evolution of a mobile money ecosystem in rural areas. Here, there is little in the way of an influx of hard currency—from international traders, *hawala* companies and international organizations—and a lower volume of financial transactions compared to urban areas. The fact that farmers and pastoralists prefer to use Somaliland shillings is well known. A vendor of camel milk, cow milk and ghee at the Ali

Maaweel Market in the Xera-Awr area of Hargeysa, for example, pays farmers in cash even though she herself uses mobile phone payments. On a daily basis, her transactions follow a pattern: she receives several jerry cans of milk every morning by truck, each provided by a different farmer and identified with a number. The volume of each jerry can is calculated in cups. The vendor charges SSh 4,000 per cup and collects payment for them on her mobile wallet. At the end of a working day, she keeps a quarter of the earnings for herself, gives another quarter to the driver of the truck who delivered the morning's produce, and pays out the rest in Somaliland shillings cash, which she distributes among her suppliers. She does this by tucking the Somaliland shilling notes in their respective jerry cans.

Similarly, shop owners use both the US Dollar and Somaliland shilling along main roads, accepting dollars from travellers and truck drivers and shillings from local villagers and pastoralists. Pastoralists and farmers owe their greater familiarity with Somaliland shillings to unreliable access to hard currency due to the absence of remittances in some rural areas or their lack of a connection to other sources of US Dollars. Differences emerge when looking at the popular use of US Dollars and Somaliland shillings, firstly between urban and rural dwellers and secondly, between people dealing with US Dollars, such as businessmen operating on a transnational scale, NGO and international organization workers, and civil servants paid in Somaliland shillings by the state. These differences have political implications.

5. Challenges and convergences

As Zaad grew in popularity, Telesom entered the political arena. Its financial opacity, in particular, became the subject of discussion in Somaliland’s House of Representatives. Perhaps because of the composition of its shareholders, the House’s failure to approve banking or telecommunications regulations has left Telesom beyond the reach of the Bank of Somaliland—the body in charge of regulating financial institutions. According to the governor of the Bank of Somaliland, Abdi Dirir Abdi,

Telesom is outside our reach: we don’t know how much money it makes and how to levy taxes [on it]. It is Zaad system that causes inflation and offends the dignity of our legal tender. In Kenya or Tanzania, mobile money companies use the local currency. Why is it different here?³⁴

Somalilanders recognize that the influence of Telesom on the local economy is unregulated, airing concerns over their exposure to the risk of losing their deposits with either Zaad and Salaam if their parent company fails. Al-Barakaat’s collapse is often brought up in this context. The state’s inability to monitor Zaad is perceived as a sign of institutional weakness, a feeling accentuated by the fact Zaad is traded not in Somaliland’s official currency but in US Dollars. Somalilanders recognize that, by making access to hard currency easier, Zaad helps guard against domestic financial volatility.

Would the state lose face if, because of Telesom’s growing influence, it began to accept domestic payments directly in US Dollars?

At the end of 2013, the Central Bank launched a campaign to strengthen people’s trust in the national currency. Large sign-boards were raised in several corners of Hargeysa to warn against US Dollar bills that had been tampered with, and to promote the use of the Somaliland shilling. This campaign adopted nationalist rhetoric, with the governor of the Central Bank, Abdi Dirir Abdi,

³⁴ Interview, 5 March 2014; Telesom introduced the possibility of transferring and storing Somaliland shillings with Zaad in 2015.

35 A senior civil servant described the information as confidential. The Central Bank does not usually disclose data on its hard currency reserves. The state requires US Dollars for passenger fees at Hargeysa airport and for mooring fees in Berbera, and regularly purchases US Dollars from money vendors to regulate inflation.

declaring in an interview, ‘using the national currency is a form of respect towards the country.’

The governor said he wanted to push back against the dollarization of the Somaliland economy, even if meant enforcing the use of the Somaliland shilling. For as long as people prefer to use US Dollars, however, the Central Bank has, however, no real power to enforce this.

Targeting Zaad, many think, plays into the hands of the other local heavyweight, Dahabshiil, which, by law, operates in Somaliland shillings. The director of a construction company that takes on state contracts said the state would, however, issue him invoices in US Dollars, the Central Bank converting them to Somaliland shillings with Dahabshiil.³⁵ This practice is questioned by the many who stress the need for a clearer, more uniform monetary policy.

Zaad and inflation

A common perception held by civil servants interviewed for this report is that Zaad fuels inflation. This perception is related to the view that Telesom is antagonistic to the Central Bank and in general to the Somaliland state. There are no econometric studies linking Zaad to inflation. ‘Zaad props up prices,’ said Wali Dauud Egal, Director of Planning at the Ministry of Finance, who contends that it is civil servants, paid in Somaliland shillings, who feel the inflationary effects of Zaad’s use of the US Dollar most of all. The Ministry of National Planning and Development says the cost of living in Somaliland has increased dramatically in the past five years. Other factors, such as a crackdown on smuggling across the border in Ethiopia, may have also had an inflationary effect. But it is true that civil servants, even if they earn extra money from remittances or from running businesses on the side, do suffer the most from inflation. The state is the country’s biggest employer. It has about 50,000 people on its payroll, as well as many thousands of military personnel—the exact number is not usually made public. Most civil servants use Zaad but they are the first to complain about Telesom’s clout and to call for stricter oversight of it. Other Somalilanders with large inflows of hard currency from overseas, such as businesspeople and the

employees of international organizations, have managed to diversify their financial practices. They see the Central Bank's limited control of Telesom as a sign of weakness but say the government needs to develop a framework for the entire sector—a sector growing at the point where telecommunication and finance meet.

Convergences

The distribution—and popularity—of Zaad has profoundly reshaped Somaliland's financial landscape, forcing key players in the strategic sectors of telecommunications and money transfer not only to protect their market niche but to occupy new ones too. Back in 2008, MTO Dahabshiil, became a major shareholder in the communications company, Somtel. In response to government and Central Bank pressure, it also launched a mobile money service, E-Dahab, for Somtel users. The system is designed to aid mobile money transfer internally and externally, and allows operations in both US Dollars and Somaliland shillings.

Unlike Dahabshiil, though, Telesom is pursuing a strategy aimed at forging business partnerships with both established and fledgling MTOs. Two companies—Tawakal and WorldRemit—have allowed their systems to operate with Zaad. Tawakal is an MTO operating across Somalia and is partly owned by Ali Ahmed Nur Jim'ale, Telesom's main shareholder. WorldRemit was founded in London (in 2010) by Ismail Ahmed, a Somali-born remittance specialist and former compliance advisor to the United Nations. Its online platform allows remittances to be sent from fifty countries and received in 117, including Somaliland. It offers bank deposit and cash pick-up options, instant transfers to mobile money wallets, and mobile airtime top-ups. It partnered with Telesom's Zaad to put money directly into mobile wallets, enabling payments to be made straight from a bank account, debit or credit card of a person initiating a transfer to its intended recipient. As such, this service acts as a more direct link between Somaliland's mobile money circuits and a wider, global financial infrastructure.

6. Conclusions

This paper seeks to shed light on the integration of mobile money into Somaliland's range of existing financial institutions. By taking stock of the practices that have emerged from its widespread use along with other monetary circuits, this paper has discussed how people make sense of the changes Zaad is bringing to their use of money. The findings suggest that Zaad's popularity results from a number of different factors—some related to Telesom's business model and outreach strategy, others pointing to the specific context in which this service has been implemented.

By enabling the transfer and storage of hard currency in Somaliland, Zaad meets a widespread demand to help people cope with a volatile economic situation—a situation that the state seems inadequate to tackle. As well as facilitating the circulation of US Dollars inside the country, it increases flexibility and coordination among economic actors and makes direct payment easier.

The emergence of Telesom as a financial institution beyond the reach of the Central Bank has also tested the limits of Somaliland's state machinery. Competition between Zaad and Dahabshiil is exposing Somaliland's inability to both rein in and levy taxes on a sector that is not just a business but one that forms the country's dominant financial infrastructure. Many businesspeople concerned by the unchecked influence of Telesom and Dahabshiil over Somaliland's economy emphasize the need for a clear regulatory framework. The money transfer systems are increasingly perceived, however, as independent monetary institutions.

Repeated mentions of 'Zaad money' as if it were an alternative currency—used both instead of and in conjunction with, the Somaliland shilling and US Dollar—imply that it is popularly seen as a competitor, or that Telesom is competing with state financial institutions for legitimacy. Each, though, has a different function as a currency. While Zaad money acts as a point of transfer between businesses and customers, particularly in urban areas,

Somaliland shillings are a projection of the state on daily relations and small transactions, particularly in rural areas.

The limited amount of trust people have in the country's local currency is also compounded by their pursuit of a hard currency. In addition, the amount of attention being paid to mobile phone-driven financial inclusion runs the risk of obscuring the complex political and economic dynamics. They also reflect the anxieties that originate from an unfinished process of state-building in Somaliland. Zaad's success in 'banking the unbanked' is yet to be properly verified, and many Somalilanders believe that financial inclusion will be achieved only when international banking institutions have established a presence in the country. In a case of business paving the way to political change, could Somaliland's recognition by global financial services such as Visa and Mastercard pave the way to its recognition by the United Nations? This view is popular among members of the returning diaspora and is gradually permeating the broader business community. It conveys an awareness that transnational mobility is a precondition for business success. Abdikarim, the manager of a travel agency, put it this way.

They say that we Somalis travel so much because of our nomadic tradition, which is possibly true. But nowadays everybody needs to stay on the move if he wants to make a living. So probably it's not we who are adapting to the world. Probably it's the world which is going the Somali way.

This report has focused on practices and perceptions. Further research will be required to measure the change in spending and saving at business and household level. Applying a financial diaries methodology could be beneficial to quantify the impact of Zaad on household portfolios. Further hard data on the uptake of Zaad in Somaliland would also contribute to a more thorough picture of the link between mobile money and the improvements it has made in the financial capabilities of both entrepreneurs and households in Africa.

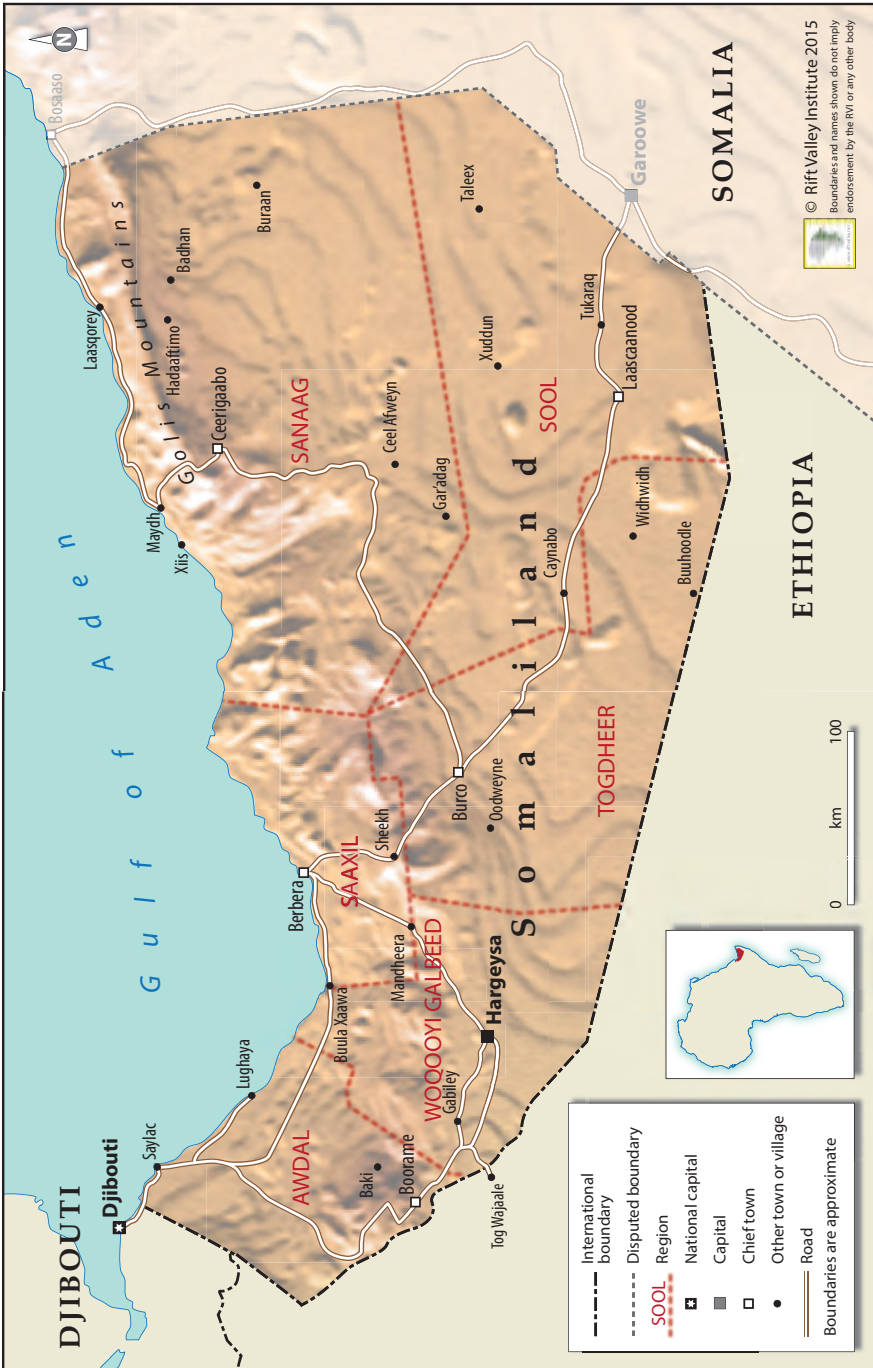
Glossary of acronyms, words and phrases

<i>aiiuto</i>	(<i>Italian</i>) help
ATM	Automated Teller Machine
<i>ayuuto</i>	(<i>Somali</i>) see <i>hagbed</i>
<i>barakaat</i>	(<i>Arabic</i>) blessings
BGC	Al-Barakaat Group of Companies
<i>geed</i>	(<i>Somali</i>) trees
GSMA	<i>Groupe Spéciale Mobile</i> Association
<i>hagbed</i>	(<i>Somali</i>) traditional Somali rotating saving and credit association
<i>hawala</i>	(<i>Arabic</i>) transfer
ID	Identity card
<i>khat</i>	mildly narcotic plant widely consumed in Somaliland
<i>lariba</i>	(<i>Arabic</i>) interest-free
MMU	Mobile Money for the Unbanked, a GSMA unit
MNO	Mobile Network Operator
MTO	Money Transfer Operator
P2B	People-to-business
<i>pesa</i>	(<i>Kiswahili</i>) money
<i>shaloongo</i>	(<i>Somali</i>) see <i>hagbed</i>
<i>shirkaad/shirkooyin</i>	(<i>Somali</i>) public company (s./pl.)
ShSI	Somaliland shillings
USD	US Dollars
USSD	Unstructured Supplementary Service Data, a mobile telephone protocol to communicate with the service provider's computers
<i>zaad</i>	(<i>Somali</i>) word traditionally used by pastoralists for a group of items essential for travel; (<i>Arabic</i>) to grow or to prosper
<i>zakat</i>	(<i>Arabic</i>) alms for beggars

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Map 2. Somaliland

Selected RVI publications



The Economics of Elections in Somaliland: The financing of political parties and candidates

Examining the 2005 parliamentary and 2012 local council elections, this paper concludes that conceiving of elections solely as exercises in democratic representation, ignores a broader social and economic reality.



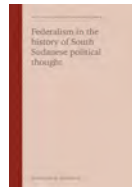
Hosts and Guests: A historical interpretation of land conflicts in southern and central Somalia

This Rift Valley Forum research paper argues that a historical approach offers an illuminating way of understanding land disputes in southern and central Somalia.



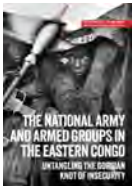
Between Somaliland and Puntland: Marginalization, militarization and conflicting political visions

An analysis of the political evolution of Somaliland and Puntland, their competing political visions and those living in between the two polities.



Federalism in the history of South Sudanese political thought

This research paper discusses South Sudanese attitudes towards federalism, and the way it was presented from Sudan's independence to today.



The National Army and Armed Groups in the Eastern Congo: Untangling the Gordian knot of insecurity

An analysis of armed mobilization, the FARDC, and efforts in demobilization and army reform. Aussi en français.



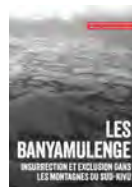
My Mother Will Not Come to Juba: South Sudanese debate the making of the constitution

Debates at Juba University on the new constitution, examining challenges, reasons for delay, and questions of public participation in constitution-making.



The Sudan Handbook

A guide to Sudan and South Sudan and the historical processes that shaped them, written by leading specialists and edited by John Ryle, Justin Willis, Suliman Baldo and Jok Madut Jok.



Les Banyamulenge: Insurrection et exclusion dans les montagnes du Sud-Kivu

Ce rapport examine les Banyamulenge, communauté Tutsi congolaise se trouvant au coeur des multiples conflits dans l'est de la RDC. Also available in English.



حينما تصبح الحدود الادارية الداخلية حدوداً دولية
ركز النقاش الدائر حول السودانيين، الشمالي والجنوبي، على مسألة أين يمر خط الحدود بينهما. ويفحص التقرير موضوعاً آخر هو: الأثر المحتمل للحدود الجديدة على سكان الاراضي الحدودية.

When Boundaries Become Borders is also available in English.

‘This study provides an interesting and unusual insight into the state-building process in Somaliland. Taking Zaad—our everyday companion here in Somaliland—Iazzolino explores the intricate nature of private and public sector relations. Vividly mapping the landscape of the mobile money transfer system, he identifies the importance of trust as its foundation, and the role that banking, financial institutions and technology have played in the making of Somaliland. This report is a recommended reading for policy makers and academics alike.’

—Abdi Zenebe, Institute of Peace and Conflict Studies (IPCS),
University of Hargeysa, Somaliland

Zaad, Somaliland’s first mobile money platform, was launched in 2009 and has rapidly become a feature of a financial landscape hitherto dominated by Somali remittance companies. This report charts the distribution of mobile money across the financial landscape of Somaliland. It examines the way the Zaad service is reshaping livelihoods and business practices, as well as implications of its popularity for the relationship between state and non-state actors, and the effect this might have on Somaliland’s political and financial institutions. It argues that the narrative of the role that mobile systems can have in supporting financial inclusion runs the risk of obscuring complex political and economic dynamics, especially in the context of Somaliland’s state-building process. The study suggests that the popularity of Zaad is in part due to the specific context in which it operates as well as the business model and outreach strategy of its parent company Telesom. Fundamentally, in the absence of international banks, Zaad meets a widespread demand to help people cope with a volatile economic situation.



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