

Keynote Speech¹ by H.E. Dr Mohamed Ibrahim, Minister of Posts and Telecommunications, Federal Republic of Somalia, on Digital Financial Services and Financial Inclusion² at the ITU Headquarters in Geneva, Switzerland on 4 December 2014, held in collaboration with Bill and Melinda Gates Foundation.

Mr. Chairman, distinguished guests, ladies and gentlemen, on behalf of the Somali people and my government, please accept very warm greetings from Somalia. I wish first to thank the ITU for the invitation and for hosting this event here in Geneva.

From the outset let me be clear about my position on mobile money: I am a believer in its positive contribution to financial inclusion and to improving the lot of the unbanked. Let me rapidly add the following: Mobile payment, also referred to as 'mobile money', 'mobile money transfer', and 'mobile wallet' generally refer to: 'all payment services operated under **financial regulation** and performed from or via a **mobile device**'. While setting the scene for this new form of monetary exchange, permit me to outline - and this really tests my memory as I have to revisit my undergraduate days in economics 101 - 'Money as a medium of exchange, unit of account, a store of value, ... to revise this definition³ will require not only rewriting text books, statues and legal principles, but will also require nothing less than a fundamental reorganisation of society.

For today's 'mobile money' is more than the so-called 'cashless society' phase we are still going through. Ideas about cashless societies were articulated and explored in pre-19th century utopian literature within works of influential writers

¹ Extended version of this speech is available on mipt.gov.so. The target audiences for the ideas presented in this paper are: ITU Member States, ICT regulators, financial services regulators, policymakers, Mobile Network Operators, Banks, Financial Service Providers, Mobile financial services platform providers, International Organizations and NGOs involved in financial inclusion programmes and academia. The paper provides evidence-based research recommendations for policy makers.

² The focus of this event is on ways to enable ICTs in meeting the goals of financial inclusion by illustrating some successful use cases. The future technology trends in digital financial services and its impact on business models and the ecosystem; creating a platform for dialogue between the telecom and financial services sectors to discuss best practices for the harmonization of legal and regulatory framework for digital finance globally; and to identify collective action and specific next steps to advance the work in the ITU Focus Group on Digital Financial Services. The inputs from this event will be submitted to the Focus Group on Digital Financial Services as a contribution to the development of a "Roadmap for inter-operable digital financial services".

³ During the wars, chocolate, cigarettes, coffee, even nylon stockings became currency.

such as Thomas More, Robert Owen, William Morris and Edward Bellamy. Such writers outlined the differing ways in which problems associated with conventional notes-and-coins monetary systems were tackled -while also looking at proposals for alternative payment systems. Ultimately, what we have learnt is the desire to dispense with cash and find a more efficient and less-exploitable payment system is certainly nothing new. What is new, however, are the practical problems associated with implementing such a system – not so much from a technical perspective but because the legal considerations and risk mitigation remain hugely challenging.

The complications arising from a convergence of finance and telecommunication sectors are mostly to do with the legal framework necessary for mobile money to work in a transparent manner. And in a manner compliant to all rules governing both industries. The fact that countries with highly developed legal systems governing these two sectors have been slow to adopt mobile money is testament to these complications. In the case of failed or fragile states recovering from decades of anarchy, such a lack of transparency and legal frameworks enables unscrupulous business practices to creep in creating a less than ideal business environment. This is certainly the case in Somalia.

What contributes to this ‘perfect storm’ is the fact that the few who own the telecom sectors own almost the entire finance businesses as well. The weak legal framework and the dollarization of the sector – and absence of a single piece of legislation passed by the parliament or even any directives from the finance Ministry or any other government agency – has permitted the complete virtualisation of the Somali economy. An economy which still remains in the hands of one or two individuals.

Obviously this is not acceptable and needs urgent solutions, especially when these de facto (almost absence of law in some parts of country) rulers of the country move into other industries. If this situation remains uncontrolled, unregulated, the situation may deteriorate even further. With the introduction of mobile money in such environments, the speed of monopolizing a whole country’s or even region’s economy will accelerate, literally putting it in the hands

of a few individuals who are more powerful than any form of any conceivable government. By then, we will have to revive that old plantation song⁴ : "*I owe my soul to the company store*" those in need became slaves to those who running the money stores. "*Another day older and deeper in debt*" – these phrases not heard since the truck system and debt bondage era in Britain and the US in the 18th and 19th century.

Let me briefly comment on the ICT and finance sectors in Somalia in general to put the issue in perspective. These two sectors are almost entirely in the hands of the private sector. They have faced and continue to face many legal challenges with many authorities, including banks around the world. And certainly their contempt in dealing with any local authorities does not help them get the necessary support for gaining legitimacy. It is in this less than ideal environment that the mobile money innovation was developed and so far partially succeeded. There are also many local ICT strategic initiatives including regional connectivity ones supported by the World Bank. There is no reason why Somalia should be on an ICT island, rather than being part of the open-sourced, networked world, no reason it too cannot operate in and from the ‘cloud,’ metaphorically speaking, rather than standalone propriety entities.

At present the development of mobile money certainly lacks the necessary legitimacy for a nationally credible exchange system. There are no declared business models. Although it is ‘advanced’ in a technological sense, this local Somali-style ICT innovation has grown organically and does not seem to have the ability to consider itself bound by wider social responsibilities, and to take the longer view.

The way to prevent this is remove the ambiguity and lack of clarity presently

⁴ I owe my soul to the Company Store: How would YOU like to be paid with a prepaid bank card? - from "Sixteen Tons," a song about coal miners, made popular by Tennessee Ernie Ford

*You load sixteen tons, what do you get
Another day older and deeper in debt
Saint Peter don't you call me 'cause I can't go
I owe my soul to the company store*

being spun by telecom operators providing this service. The ICT industry is an essential pillar in the rebuilding of economic opportunities in my country. It aims to address key development gaps, improve enabling environments and leverage innovations like mobile money to improve access to financial service - and by this means also improve economic opportunities for all rural, borderland and other marginalized communities.

Put bluntly, the creation of an enabling environment for the telecom sector is only possible if there is a strengthening of state regulatory functions and legal frameworks. My Ministry is committed to being an enabler for PPP schemes which will ensure collaboration between the government, telecommunication and other entities. It is important to emphasize my government's commitment and readiness to enact reforms which will produce enabling environments. In other words, public-private partnerships will be leveraged to enable maximum value for money.

Facilitating and supporting the implementation of an effective framework for mobile money in Somalia is a very contentious issue. The source of the problem lies deeper than developing a framework for mobile money, as it touches on the still highly problematic area of the relationship between telecom operators and the government. This is beyond the scope of this paper and suffices to say, mobile money in Somalia is already highly popular, but is based on a less than stable regulatory framework which we are working on its improvement.

In many of my earlier speeches and papers, I have described the potential for ICT to transform the Somali economy and society. It is my belief that mobile money is the area with the highest potential for changing the lives of ordinary Somalis, especially those at the base of the pyramid.⁵ According to *Global Findex* statistics on Mobile money use⁶, some 26 per cent of Somalis report using mobile phones to pay bills (compared with just 13 per cent in Kenya), with 32 per cent using their phones to receive money (compared with only 20 per cent of Tanzanians). Yet it

⁵ See *infoDev* (2013) *Mobile usage at the base of the pyramid: Case studies of Kenya and South Africa*. Available at www.infodev.org/MBOPsummary.

⁶ <http://go.worldbank.org/1F2V9ZK8C0>.

must be said implementation of mobile payments in Somalia is built on shaky foundations affecting the level of confidence in the system and therefore reducing its usefulness for more advanced applications - such as making salary payments, paying utility bills, and international funds transfer or remittances.

From a functional point of view, there are different implementations of “mobile money” in Somalia. In South Central Somalia, services such as Hormuud EVC+, Nationlink eMaal and Dahabshiil group eDahab use airtime credit resale as a form of mobile payments between users. However, there is no Bank guarantee underlying the credit, and no certainty for the user that the credit can be redeemed for cash and can presumably gain interest on the unspent credit within user accounts.

The two strongest commercial concerns in the country have the ability to convert that strength into political influence also. The mobile money services offered by these two players generate a lot of cash, and provide a high degree of “lock-in”, thus that consumers choose the dominant players as it is hard to transfer credit from one system to another with a different operator. But because “mobile money” in Somalia is actually only an airtime credit system (at least that is what some of the operators claim, and in the absence of law to regulate this, one is forced to accept that assertion), in which there exists only informal and unregulated possibilities to convert airtime credit back into cash, the system remains fragile and open to manipulation. In Somaliland, where the Zaad service is operated by TeleSom, and in Puntland, where Golis offers the Sahal mobile money service in conjunction with Salaam Bank, the implementation is closer to “true” mobile money in that there is a separation between the ‘airtime credit’ and ‘mobile wallet’ transactions. This means higher value transactions are possible, up to US\$2,000 per day. Unlike airtime credit, these “true” mobile money transactions can be traced - which is one reason they are opposed by Al Shabaab.

But in neither case are the transactions regulated or taxed. This gives rise to concerns that mobile money could be used as a means of money laundering, or funding terrorist organisations. Elsewhere in the region, notably in Kenya where M-Pesa has proved popular and has more than 17 million users, mobile money

plays an important role in bringing banking and payment services to the unbanked.

In Kenya, each of the mobile money systems, of which Safaricom's M-Pesa is the largest, maintains a counterpart trust fund in the "real" Banking system. What this means is that for every shilling invested in mobile money credit, and equivalent shilling is invested also in the Trust Fund. Profits, in the form of interest, from the Trust Fund are disbursed through corporate social responsibility programs. The existence of counterpart funding in the real economy prevents any crisis of confidence or "run" on the M-Pesa system. The absence of such counterpart funding in Somalia is a major concern for the overall stability of the system.

My focus as said earlier is on issues of inter-agency responsibility. These include: consumer protections, status of deposits held in trust accounts which have been collected for remittance purposes, exclusive agreements with agent and agent network management, non-discriminatory access by third parties, and the possibilities of formalized collaboration between these agencies, the Central Bank and the Somali government.

Such collaboration could include memoranda of agreement between Central Bank with its concerns about safety and soundness on financial services and the Somali government with its concern on behalf of all the people regarding the quality of service, interconnections between differing mobile-money services, ease of access to communication channels, and licensing of mobile-money services and regulation.

In conclusion, what of the future? There are grounds for optimism: aside from its exchange, store and measure functions, money is sometime said to have a fourth: a standard of deferred payment. Am optimistic that mobile money will enhance and contribute to financial inclusion initiatives, provided we are mindful as economic history showed that *few players in any market can tilt the necessary level playing field necessary for markets to do one of their primary functions... to allocate resources efficiently and give consumers choices.*